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OUTLOOK & SITUATION

See back cover for details on ordering
the next AGRICULTURAL FINANCE report.

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Situation Coordinator

George R. Amols

Principal Contributors

George R. Amols
Scott Davis
Ron L. Durst
Linda R. Farmer
Stephen C. Gabriel
James M. Hrubovcak
Wilson K. Kaiser
Michael R. LeBlanc
Catharine Lemieux
Gary Lucier
Paul Prentice
Jerome M. Stam
Paul Sundell

Also Contributing

Allen Baker
Cliff Carmen
Sam Evans
Ed Glade
Verner Grise
Ron Gustafson
Roger Hoskin
Ben Huang
Allen Schienbein
Leland Southard
Michael Stellmacher
Barbara Stucker
Larry Van Meir

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Approved by the World Agricultural Outlook Board. The next summary of the **Agricultural Finance Outlook and Situation** is scheduled for release on December 20, 1984. It will appear on several computer networks by 3:30 ET on the day of release. Full text and tables will also be released electronically, often several days before the report itself is published. For more information on providers of electronic access to Outlook and Situation reports, write EMS/USDA, Rm. 440, GHI, Washington, D.C. 20250. Telephone (202) 382-9754.

Summary

Financial conditions for U.S. farmers have generally stabilized, even though some farmers still face difficulties. Conditions in mid-December show that the 1983 drought and acreage reduction programs helped raise sectorwide farm income and cash flow, but that real farm income (after adjusting for inflation) has remained relatively low. Livestock producers' returns have suffered from high feed costs and low product prices, and high interest rates continue to plague farmers struggling with large debts.

For the year ending June 1983, the delinquency rate on farm loans at agricultural banks was about 3.7 percent, and the percentage of farmers who went out of business was about 2.3. Both figures are unchanged from a year earlier. However, a larger number went through bankruptcy, 1.1 percent compared with 0.75 percent a year earlier.

Prospects for 1984 suggest farm income will continue to increase, compared with the past few years. The index of prices received by farmers is forecast to average 5 to 7 percent higher. The index of prices paid for all items may also climb 5 to 7 percent, while nonfarm origin inputs may be up 4 to 6 percent.

As farm income and planted acreage increase in 1984, farm investments could advance \$3 billion. Last year's gross investment is estimated at \$19.1 billion, down \$1.5 billion from 1982. The decrease came from high participation in acreage reduction programs, high interest rates, and improved but still sluggish farm income, which kept many farmers from making capital improvements and from purchasing machinery and equipment.

The nominal value of farm assets will likely increase 1.8 percent in 1983, after declining for the last 2 years. Real estate values rose 2.5 percent, but receded after adjusting for inflation. For 1984, the value of farm real estate is forecast to gain nearly 3 percent.

Estimated total farm debt declined about 0.5 percent in 1983, to \$215.1 billion. Lenders whose outstanding debt declined include production credit associations (down 5.8 percent), Federal intermediate credit banks (down 9.9 percent), nonreal estate debt held by individuals and others (down 3 percent), and the Commodity Credit Corporation (down 32.5 percent). Commercial banks experienced the strongest growth in both real estate debt (7.6 percent) and nonreal estate debt (6.6 percent). Next year, farm debt is forecast to increase about 3 percent, to \$222 billion.

Nominal farm equity is estimated to have increased only about 2.8 percent in 1983. Hence, real equity declined for the fourth consecutive year and is forecast to drop again in 1984.

GENERAL ECONOMIC CONDITIONS

Summary of the Economy in 1983

Entering 1983, it was apparent that for the economy to recover consumer spending had to rebound. By saving 6.6 and 5.8 percent of their disposable income in 1981 and 1982, respectively, consumers had rebuilt their liquid assets and entered 1983 with greater liquidity and reduced debt relative to income. Spurred by rapid money growth and lower interest rates in the fourth quarter of 1982, residential construction increased \$4.9 billion in the first quarter and consumer spending rose by \$7.1 billion, although the consumer savings rate remained at the fourth quarter's 5.4 percent of disposable income. Moreover, inventories fell by \$15.4 billion in the first quarter, setting the stage for the second-quarter rebound in consumer spending to be met predominately from increased production instead of from inventories.

The magnitude of the second-quarter rebound surprised market participants as the savings rate fell to an extremely low 4 percent of disposable income and as real consumer spending increased at a 10-percent annual rate above the first quarter. Analysts generally attributed this to advance spending in anticipation of the July tax cut. Moreover, the rebound in consumer spending caused inventories to fall a further \$5.4 billion, and the inventory-to-sales ratio fell to roughly 1.35 by June, its lowest level since 1974. Clearly, the fall in inventories was not desirable, especially in light of increased sales in the second quarter and further increases expected in the second half of 1983.

In the second half of 1983, consumer spending remained strong. The savings rate moved upward to roughly 5 percent, and consumer spending out of disposable personal income remained historically high. More important, the rebound in consumer spending induced higher spending in business fixed investment. Overall real business fixed investment increased about 9 percent in the second half, compared with the sluggish 3.1 percent in the first half. Furthermore, strong cyclical productivity gains and low labor costs led to increased retained earnings.

This, along with accelerated depreciation allowances, raised third-quarter 1983 internally generated funds 19.3 percent above their third-quarter 1982 levels. This increase played a key role in rebounding business spending in the second half of the year, because internally generated funds are the least expensive to a firm.

Residential fixed investment rebounded sharply for the year, increasing about \$15 billion or roughly 40 percent from depressed 1982 levels. However, the pace of the rebound slowed considerably in the second half as mortgage rates rose to the 13.5- to 14-percent range. The rebound in the housing sector also has been slowed by some buyer resistance to variable rate mortgages.

The economy's greatest weakness in 1983 continued to be net exports, estimated down about \$15 billion. The decline has been particularly concentrated on the import side, with imports rising \$16.7 billion since the fourth quarter of 1982. Comparatively high real U.S. interest rates, declining relative inflation in the United States, and concern over possible international default have all managed to maintain the strong value of the dollar,

despite the relatively stronger real growth in the United States than in its major trading partners. Moreover, because of long-term trade contacts, the adjustment of U.S. trade to changes in exchange rates is a relatively long process.

In the domestic monetary sector, all the monetary aggregates by year's end should be within their annual growth targets. However, reflecting efforts to conserve on the holding of relative low yielding transactions deposits (primarily demand deposits and NOW accounts) and financial deregulation, the relative growth of the monetary aggregates diverged sharply in 1983. At year's end, M1 will be roughly in the lower end of its 5- to 9-percent target growth range, M2 will be roughly in the middle of its 7- to 10-percent target, while M3 will finish in the upper part of its 6.5 to 9.5 target. Growth in M2 and M3 accelerated somewhat in the last quarter, reflecting the elimination of interest rate ceilings and minimum deposit requirements on time deposits greater than 31 days and the fourth quarter mild rebound in business loans.

Short-term interest rates displayed less volatility in 1983, reflecting greater Federal Reserve emphasis on interest rates and credit conditions in implementing monetary policy as well as lower inflation. The impact of strong real GNP growth and stronger private credit demand in the second half of the year pushed up short-term interest rates roughly 30 to 50 basis points to the 8.75- to 9.50-percent range. Longer term interest rates increased roughly 100 to 150 basis points in the second half of the year to the 11.5- to 13-percent range, as the probability of a relatively strong recovery with somewhat higher inflation and increased private credit demand became more likely.

Outlook for 1984

The recovery should continue at a strong pace, with real GNP increasing in the 4- to 6-percent range. Although consumer spending out of disposable income may decrease slightly, particularly by the end of the year, the broadening of the recovery into fixed business investment indicates the economy has sufficient strength to withstand moderate increases in interest rates without aborting the recovery in 1984. Corporate cash flow is expected to remain strong; however, by the second half of 1984, the demand for external funds to finance fixed investment, inventory, and general liquidity needs should increase fairly rapidly. Stronger private credit demand and continued large Federal deficits will put upward pressure on the Federal Reserve monetary and credit aggregates for 1984 and produce additional tightening, especially in the second half of 1984. Short-term rates should rise into the 10.5- to 11.5-percent range by year's end. Long-term rates are expected to rise by less than short term rates, particularly for higher quality issues.

Net exports, which declined severely since 1980, should bottom out in 1984, primarily because of an accelerating overseas recovery. One additional factor, although somewhat uncertain, is an expected moderate depreciation of the dollar, with several factors supporting a potential fall. First, the increasingly larger trade and current account deficits in 1983 and 1984 might place downward pressure on the dollar due to excess overseas supplies. However, a current account deficit (in the absence of

foreign exchange intervention by central banks) will require a capital account surplus in order to maintain balance-of-payments equilibrium. The increased demand for dollars from the capital account might offset the excess supply from the current account, causing some uncertainty about the potential decline in the dollar in the short run. For example, increasing trade deficits since 1980 have been offset by increasing capital inflows—at the same time the dollar has appreciated substantially. However, eventually, for portfolio diversification reasons (aimed at reducing overall exchange risk), U.S. institutions will attempt to replenish their holdings of foreign assets and foreign institutions will attempt to eventually reduce their holdings of U.S. assets. These portfolio shifts will tend to place downward pressure on the dollar, ultimately reducing the current account deficit by raising net exports. When this will occur is uncertain.

A second factor is that foreign central banks have not been pleased with the extremely high value of the dollar in recent years since it raises their cost of dollar denominated imports such as oil, as well as causing massive internal resource shifts from the production of nontradeable to tradeable goods which may cause bottlenecks in their own economies. Thus, should the foreign recovery improve as expected, foreign central banks may allow interest rates to rise in order for their currencies to appreciate against the dollar.

Third, although the U.S. recovery is still expected to be somewhat stronger than most of our trading partners, real U.S. interest rates are not expected to rise sharply next year. Moreover, the favorable differential between U.S. inflation and that of its major trading partners should narrow somewhat next year. Therefore, the expected lower U.S. real interest rate differential should place additional downward pressure on the dollar.

Finally, recent improvement in the third world debt situation is likely to continue, thus reducing risk of foreign default and causing the dollar to fall against these currencies.

Inflation should increase modestly from 1983's 2- to 4-percent range to the 4- to 6-percent range, depending upon the index. Efforts at cost control implemented in the 1982 recession will help control price hikes, as will cyclical gains in productivity. Moreover, labor has experienced the deepest recession in 40 years and is likely to be relatively cautious in striking for large wage hikes. Overall, the unemployment rate is expected to fall to around 8 percent for 1984.

Impacts on Agriculture

Domestic and foreign demand for agricultural products is expected to pick up in 1984. The main beneficiaries will be producers of red meats, fresh fruits and vegetables, and cotton. Demand strength will be most noticeable beyond the farm gate, as marketing services and restaurant spending are highly income elastic. An anticipated decline in the value of the dollar, although somewhat uncertain, may provide some additional export demand strength, but not until late 1984 or 1985.

The best news for agriculture in 1983 was a further moderation in the general inflation rate, and average

nominal interest rates below levels in 1982. Restraint in farm costs was a major factor shoring up net farm income in 1983. Some acceleration in costs is expected in 1984, but not enough to offset the positive impact of stronger demand.

Credit is generally available at agricultural lending institutions, although real interest rates remain high by historical standards and farmers' debt-carrying capacity has been reduced by erosion of asset values. Lower nominal interest rates and reduced credit demand in 1983 combined to significantly reduce the interest component of farm production expenses, but this is forecast to be reversed somewhat in 1984. The decline in farmland values appears to have bottomed out, largely due to payment-in-kind (PIK)-induced increases in grain prices, although some further downward adjustments in real land prices are possible.

FARM FINANCIAL CONDITIONS

High real interest rates, declining real farm equity, and low real farm income compared to the 1970's have reduced farmers' borrowing capacity by undermining the value of collateral and by raising questions about some farmers' ability to repay. Although credit is available to creditworthy borrowers, qualifying for loans is becoming more difficult—particularly for highly leveraged farm operators. The weak farmland market is leading many lenders to look more closely at farm borrowers' cash flow, and it appears the overall quality of lenders' farm-loan portfolios has continued to deteriorate during 1983. For example, the American Bankers Association midyear Farm Credit Survey indicates that 48 percent of the banks responding said that they experienced a decrease in the quality of their farm-loan portfolio, while 37 percent said quality remained the same, and only 15 percent said it increased (table 1).

Many farmers are making efforts to improve their cash flow by restructuring their balance sheets. Farm debt is growing at a much slower rate in recent years, and many highly leveraged operators are liquidating assets to generate cash and reduce their debt burden.

Delinquencies and Farm Liquidations

For the year ending June 1983, the delinquency rate on farm loans remained at 3.7 percent, about the same as the previous year (table 2). Fewer delinquencies occurred in the Corn Belt and West, and in the cash grain and cotton areas, while delinquencies increased in most livestock and dairy areas (table 3).

Bankers discontinued financing fewer farm borrowers in 1983 than 1982. Nationwide, 2.9 percent of banks' farm borrowers were discontinued, compared with 3.3 percent the previous year. The only exception to this pattern was in areas where cow-calf operations predominate. Here discontinuations increased from 2.9 percent in 1982 to 3.9 percent in 1983.

Last year, bankers anticipated discontinuations to rise this year. However, their pessimism was not borne out. This year, bankers are more optimistic and expect discontinuations to decline next year. The only exception to

Table 1—Quality of farm loan portfolio^a

Quality of portfolio	Change			Expected change		
	Mid-1982 to mid-1983			Mid-1983 to mid-1984		
	Increase	Decrease	Same	Increase	Decrease	Same
	<i>Percent of banks reporting</i>					
Rate of farm loan repayments	15	47	38	40	15	45
Rate of renewals and extensions	58	9	33	22	32	46
Rate of delinquencies 30 days and over	38	13	50	14	32	54
Rate of farm losses (charge offs).	40	9	51	19	28	52
Rate of refinancing (converted short-term debt into long-term real estate secured loans).	57	5	38	33	17	50
Overall quality of farm loan portfolio.	15	48	37	38	18	44

^aData were obtained in a survey conducted by the American Bankers Association (ABA) in August-September 1983.

Table 2—Indices of Financial Stress in Agriculture, by Region^a

	United States		Northeast ¹		Corn Belt ²		South ³		Plains ⁴		West ⁵	
	1982	1983	1982	1983	1982	1983	1982	1983	1982	1983	1982	1983
Farm loan volume delinquent 30 days or more	3.9	3.7	3.4	3.5	4.0	3.5	4.6	4.3	3.7	3.5	5.0	4.5
Farm borrowers who had bank financing discontinued (during year ending in June)	3.3	2.9	2.8	2.7	2.8	2.5	6.4	4.4	3.3	3.0	3.3	3.3
Farm borrowers who banks anticipate discontinuing (during year ending next June)	4.4	2.0	3.5	1.8	4.2	1.5	7.7	2.7	4.5	2.6	2.5	2.1
Farm borrowers loaned-up to practical limit in June	31.9	28.1	26.1	26.7	27.3	26.0	49.0	40.5	31.9	27.0	40.9	32.1
Farm borrowers expected to be loaned-up to practical limit next June	34.8	28.6	29.7	27.2	31.4	26.2	50.4	40.6	34.2	28.0	41.9	32.2
Farmers in bank lending area who went out of business (during year ending in June)	2.2	2.3	1.8	2.0	1.9	2.2	3.9	3.1	2.1	2.4	2.2	2.3
Farmers in bank lending area who went through bankruptcy (during year ending in June)	.75	1.1	.37	1.0	.73	1.0	1.6	1.9	.81	.94	.47	1.2

1 CT, DE, DC, ME, MD, MA, MI, MN, NH, NJ, NY, PA, RI, VT, WI

2 IL, IN, IA, MO, OH

3 AL, AR, FL, GA, KY, LA, MS, NC, SC, TN, VA, WV

4 KS, NE, ND, OK, SD, TX

5 AK, AZ, CA, CO, HI, ID, MT, NV, NM, OR, UT, WA, WY

^aSource: American Bankers Association 1983 mid-year Farm Credit Survey.

Table 3—Indices of Financial Stress in Agriculture, by Type of Farming Area^a

	Feed, Food Crop, Soybeans		Dairy		Cow-Calf		Beef Feedlots		Hog and other Livestock		Cotton	
	1982	1983	1982	1983	1982	1983	1982	1983	1982	1983	1982	1983
Farm loan volume delinquent 30 days or more	4.0	3.5	3.6	3.8	4.5	4.5	3.4	3.7	3.0	3.8	5.2	3.9
Farm borrowers who had bank financing discontinued (during year ending in June)	3.1	2.7	3.4	3.1	2.9	3.9	2.8	2.2	2.8	2.6	5.2	3.5
Farm borrowers who banks anticipate discontinuing (during year ending next June)	4.4	1.9	4.4	1.9	4.0	2.4	3.8	1.6	7.1	3.7	5.7	2.5
Farm borrowers loaned-up to practical limit in June	30.7	27.0	25.4	25.7	35.0	32.5	37.9	27.8	27.4	29.8	41.2	33.9
Farm borrowers expected to be loaned-up to practical limit next June	34.5	27.2	27.8	26.9	36.4	34.5	39.5	27.3	30.7	29.0	41.3	34.6
Farmers in bank lending area who went out of business (during year ending in June)	2.2	2.2	1.8	2.6	2.3	2.4	1.7	1.9	1.6	1.9	4.8	2.8
Farmers in bank lending area who went through bankruptcy (during year ending in June)	.72	1.0	.51	.91	.92	1.3	.37	.47	.66	2.2	1.7	.73

^aSource: American Bankers Association 1983 mid-year Farm Credit Survey.

this is in hog and other livestock areas where bankers look for increased discontinuations.

Fewer farmers were loaned-up to their practical limit this year than in 1982. Bankers indicate that about 28 percent of their farm customers had borrowed to capacity, which is down from 32 percent in 1982. Next year, bankers expect no significant change in this percentage.

In the year ending June 1983, about 2.3 percent of the operating farms went out of business, about the same as a year earlier. The only significant changes occurred in the South where the rates dropped from about 3.9 to 3.1 percent, in the cotton-producing areas where rates fell from 4.8 to 2.8 percent, and in the dairy areas where rates increased from 1.8 to 2.6 percent.

More farmers went through bankruptcy during the year ending this June than during the previous 12-months—1.1 percent compared with 0.75 percent. Only in cotton areas did the bankruptcy rate decline.

Farm Income in 1983

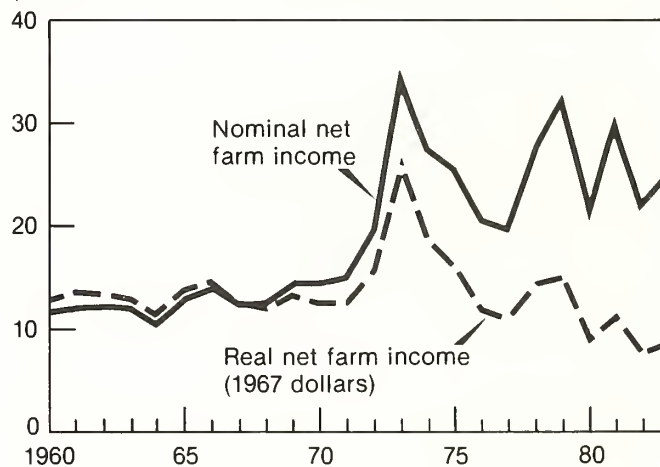
The four primary events influencing farm income during 1983 have been (1) the general domestic economy, (2) the world economy, (3) the Government farm programs, and (4) the drought in major U.S. production regions, especially the Midwest. Of them, the drought and acreage reduction programs have influenced income and cash flow the most. The 1983 farm programs include the regular acreage reduction programs, paid diversion, and target prices announced in late summer and fall of 1982, as well as the provisions of the PIK program announced in January 1983.

After announcement of PIK, crop prices slowly began to move higher and reached a plateau in early summer. With the onset of dry weather, crop prices again began to

Figure 1

Net Farm Income in Nominal and Real Terms

\$ billion



1983 preliminary.

rise, some dramatically. These increased prices helped strengthen crop receipts; however, higher feed prices and reduced forage supplies pressured livestock prices and receipts later in the year. But when taken altogether, the net effect has been positive for total cash receipts. The acreage reduction programs reduced farm input use, and contributed to the first decline in total production expenses since 1953.

Farm prices for all commodities averaged about 2 percent greater than a year earlier. Crop prices averaged about 6 percent higher, as strong feed grain, soybean, and cotton prices offset lower fruit prices and small increases in food grain, vegetable, and tobacco prices.

Farm expenses for all items rose about 3 percent in 1983. This small increase reflects the economy's lower inflation and interest rates, and the increased competition in many sectors of the farm input supply business caused by reductions in use of farm inputs. Prices paid for feed increased most in 1983, rising more than 9 percent above 1982's low. However, expenditures were reduced for feeder livestock, fertilizers, and fuels.

Total cash receipts from marketings of farm products in 1983 are forecast to decline about 2 percent from the \$144.6 billion attained in 1982. Livestock cash receipts are expected to remain near 1982's \$70.2 billion, as lower prices for livestock and products offset increased marketings. Crop cash receipts are expected to fall about 4 percent from the \$74.4 billion of 1982. Large declines are forecast for cotton, rice, tobacco, and fruits, but these will be moderated by smaller changes for wheat, corn, and soybeans.

Government payments provided a significant contribution to 1983 gross farm income. Cash payments for deficiency, diversion, storage, and conservation programs are estimated to have totaled about \$5 billion, helping to stabilize farm income and contributing to farm cash flow. With PIK entitlements (valued at the loan rate for the individual crop loan) totaling about \$4 billion in calendar 1983, direct Government transfers have added nearly \$9 billion to gross farm income. Another \$3 to \$5 billion in 1983 PIK entitlements will likely be delayed until the first quarter of 1984, as many farmers take full advantage of the 5 months of storage assistance.

Acreage reduction was the primary reason for the 3-percent decline forecast for 1983 farm production expenses. Expenses, which have declined only twice since 1940 (1949 and 1953), are expected to total about \$136 billion, compared with \$140.1 billion in 1982. The decline was aided by smaller increases and some reductions in input prices, especially for manufactured inputs (fuels, fertilizer and lime, and pesticides), and an easing in the average interest rate on outstanding debt.

Net cash income in 1983 is forecast to be a record high of about \$43 billion. Since total cash income (receipts, Government payments, and other cash income) likely rose only slightly, most of the increase in net cash income came from lower cash expenses. In real terms, this would be the highest net cash income since 1980.

Net cash flow in 1983 is forecast to exceed 1982's \$34.1 billion by nearly \$5 billion. The large increase expected in net cash income is the major reason for the increase in cash flow.

Net farm income in 1983 is expected to range from \$22 to \$24 billion. The change in the value of farm inventories is expected to total nearly -\$9 billion with all the decline due to lower crop inventories (the value of livestock inventories will remain near last year's level). Much of the change, since a \$25- to \$29-billion range was established last summer, has been caused by the drought's impact on grain stocks, and thus, inventory adjustment.

Balance Sheet of the Farming Sector

Farm Assets

Farm assets, including farm households, are expected to total \$1,068 billion on January 1, 1984, up 1.8 percent from a year earlier (table 4). This modest increase partially offsets the decline during 1982. Two major types of assets, real estate and financial, are projected to have increased slightly between January 1, 1983, and January 1, 1984, while nonreal estate assets declined.

The change in farm real estate values dominates the change in farm assets, because real estate constitutes 74 percent of total assets. Improved prospects for farm income and the general economic recovery here and overseas suggest farm real estate assets may increase 2.5 percent in nominal terms. Surveys conducted by the Federal Reserve Banks for the second and third quarters of 1983 show changes in farmland prices ranging from -2 percent to 3 percent.

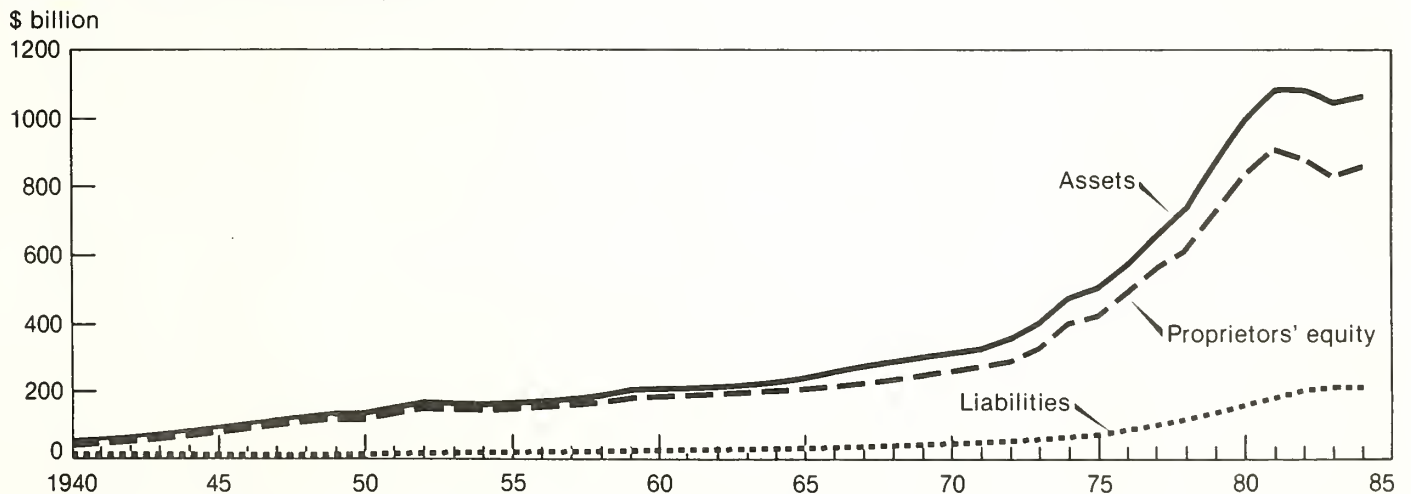
The expected 2.5-percent increase in farmland values follows 2 years of declines. In 1981 and 1982, declines in net cash income and increases in interest rates on farm mortgages reduced farmers' ability to purchase farmland. In 1983, crop prices strengthened as the acreage reduction programs and drought reduced production. Stronger crop prices, decreases in production expenses, and higher government payments are expected to increase net cash income from \$36 billion in 1982 to \$43 billion in 1983. With inflation reduced, nominal interest rates for farm real estate loans declined during the first half of 1983. The improvement in net cash income and interest rates increased the number of farmers who could qualify for loans. The improved cash flow of many farmers combined with improved price expectations for 1984 contributed to the small increase in farmland values.

Several factors moderated the increase in farm real estate land values. Interest rates remained high after adjusting for inflation. Increases in crop prices hurt the finances of the livestock sector and contributed to lower agricultural exports. The PIK program and the drought temporarily reduced production and stocks of feed, food, and oil crops; this raised crop prices and incomes for farmers participating in PIK. Uncertainty remains over future crop prices because world supply may outstrip demand over the next several years. These factors may have led farmers to reduce their expectations about the future returns from farming. This would put downward pressure on farmland values.

Nonreal estate assets are forecasted to decrease 1 percent during 1983 to total \$225.6 billion on January 1, 1984. The value of farmer-owned crops including Commodity Credit Corporation (CCC) crops is expected to drop 12 percent, as decreases in stocks more than offset gains from higher prices. The value of farm machinery and equipment is expected to increase 2.5 percent. During the first half of 1983, the acreage reduction programs and high real interest rates brought down sales of tractors and combines from already depressed levels. According to the Farm and Industrial Equipment Institute, however, the decrease in sales leveled off during the first three quarters of 1983. Some bankers expect the demand for farm-machinery loans to increase in the last quarter as farmers plan for an increase in planted acreage.

Table 4—Balance Sheet of the farming sector, 1976-1984

Items/year (Jan. 1)	1976	1977	1978	1979	1980	1981	1982	1983	1984 ^a	% change 1983-84
<i>Billion dollars</i>										
Assets										
Physical assets:										
Real estate.	418.1	496.4	554.7	655.0	755.9	828.4	818.9	772.5	792.0	2.5
Nonreal estate:										
Livestock and poultry	29.4	29.0	31.9	51.3	61.4	60.8	53.6	52.9	51.3	-3.0
Machinery and motor vehicles	64.0	71.0	77.0	85.1	96.8	102.5	108.8	111.0	113.8	2.5
Crops stored on and off-farm	21.3	22.1	24.8	28.0	33.5	35.9	36.3	42.1	37.0	-12.1
Household equipment and furnishings.	11.7	12.1	13.8	16.0	17.2	19.4	20.8	22.6	23.5	4.0
Financial assets:										
Deposits and currency	14.5	14.8	15.2	15.5	15.9	16.2	16.7	17.4	18.2	4.6
Savings bonds	3.9	3.8	3.9	4.2	4.0	3.8	3.6	3.5	3.6	2.9
Investments in co-ops	13.4	14.9	15.2	18.3	20.8	22.8	24.6	26.8	28.2	5.2
Total assets	576.3	664.1	736.5	873.4	1,005.5	1,089.8	1,083.3	1,048.8	1,067.6	1.8
Claims										
Liabilities:										
Real estate debt.	49.6	55.2	63.3	71.4	85.4	95.5	105.5	109.5	111.9	2.2
Nonreal estate debt to:										
CCC	0.4	1.0	4.5	5.7	5.1	5.0	8.0	15.4	10.4	-32.5
Others	41.6	47.7	54.9	63.7	75.3	81.5	88.1	91.4	92.8	1.5
Total liabilities	91.6	103.9	122.7	140.8	165.8	182.0	201.7	216.3	215.1	-0.6
Proprietors' equity	484.7	560.2	613.8	732.6	839.7	907.8	881.6	832.5	852.5	2.4
Total claims	576.3	664.1	736.5	873.4	1,005.5	1,089.8	1,083.3	1,048.8	1,067.6	1.8
<i>Percent</i>										
Debt to asset ratio	15.9	15.6	16.7	16.1	16.5	16.7	18.6	20.6	20.1	-2.4

^aPreliminary.Figure 2
Balance Sheet of the Farming Sector

Data as of January 1 each year. Data for 50 states beginning with 1960. 1984 preliminary.

Livestock and poultry inventory value is expected to decrease 3 percent from the January 1, 1983, value. Cattle and calves, which account for 90 percent of animal inventories, are expected to decline 2.5 percent in value. The decline results from higher feed costs that have encouraged farmers to reduce inventories. The increased marketings should drive prices downward from January 1, 1983, levels. The value of hogs and pigs in inventory is expected to decrease 8 percent.

The value of selected farmer held financial assets is expected to total \$49.9 billion on January 1, 1984, an increase of 5 percent from the previous year. Surveys of agricultural banks indicate farmers' demand and time deposits increased substantially during the first two quarters of 1983 and slowed during the third quarter. The 4.5-percent increase in farmer-owned deposits probably resulted from improvements in crop farmers' 1983 cash flow. The value of farmer-held savings bonds

increased as farmers took advantage of increased interest rates.

The net worth of farmer cooperatives in 1983 is expected to increase 5 percent. This is a slower increase than in previous years, and is partly because of the PIK program. As farmers reduced their acreage planted, they also reduced purchases of seed, fertilizer, and chemicals from cooperatives and others. This decreased their need for operating loans, and consequently, their growth in cooperative stock.

Total Farm Debt, Equity and the Debt Burden

Total farm debt is forecast to decline 0.6 percent to \$215.1 billion by January 1, 1984 (table 5). The last time total farm debt declined was in 1945. Excluding CCC debt, the total rose 1.9 percent, still much lower than the 12.3 compound annual rate of growth during the 1970's.

Table 5—Total farm debt 1971-1984^a

Year	Real estate debt	Nonreal estate debt			Total debt	
		Excl. CCC price support and storage loans	CCC price support and storage loans	Incl. CCC price support and storage loans	Excl. CCC loans	Incl. CCC loans
Million dollars outstanding Jan. 1						
1971	30,346	22,262	1,876	24,138	52,608	54,484
1972	32,192	25,114	2,262	27,376	57,306	59,568
1973	35,094	27,965	1,793	29,758	63,059	64,852
1974	39,527	33,054	750	33,804	72,581	73,331
1975	44,637	36,687	319	37,006	81,324	81,643
1976	49,603	41,552	375	41,927	91,155	91,530
1977	55,157	47,637	1,040	48,727	102,844	103,884
1978	63,307	54,896	4,540	59,436	118,203	122,743
1979	71,413	63,735	5,666	69,401	135,148	140,814
1980	85,421	75,312	5,070	80,382	160,733	165,803
1981	95,513	81,465	4,978	86,443	176,978	181,956
1982	105,565	88,107	8,011	96,118	193,672	201,683
1983	109,507	91,379	15,433	106,812	200,886	216,319
1984	111,887	92,770	10,417	103,187	204,657	215,074
Percent change in year						
1971	6.1	12.8	20.6	13.4	8.9	9.3
1972	9.0	11.4	-20.7	8.7	10.0	8.9
1973	12.6	18.2	-58.2	13.6	15.1	13.1
1974	12.9	11.0	-57.5	9.5	12.0	11.3
1975	11.1	13.3	17.6	13.3	12.1	12.1
1976	11.2	14.8	177.3	16.2	12.8	13.5
1977	14.8	15.1	336.5	22.0	14.9	18.2
1978	12.8	16.1	24.8	16.8	14.3	14.7
1979	19.6	18.2	-10.5	15.8	18.9	17.7
1980	11.8	8.2	-1.8	7.5	10.1	9.7
1981	10.5	8.2	60.9	11.2	9.4	10.8
1982	3.7	3.7	92.6	11.1	3.7	7.3
1983	2.2	1.5	-32.5	-3.4	1.9	-0.6
Percentage distribution of debt outstanding Jan. 1						
1971	55.7	40.9	3.4	44.3	96.6	100.0
1972	54.0	42.2	3.8	46.0	96.2	100.0
1973	54.1	43.1	2.8	45.9	97.2	100.0
1974	53.9	45.1	1.0	46.1	99.0	100.0
1975	54.7	44.9	0.4	45.3	99.6	100.0
1976	54.2	45.4	0.4	45.8	99.6	100.0
1977	53.1	45.9	1.0	46.9	99.0	100.0
1978	51.6	44.7	3.7	48.4	96.3	100.0
1979	50.7	45.3	4.0	49.3	96.0	100.0
1980	51.5	45.4	3.1	48.5	96.9	100.0
1981	52.5	44.8	2.7	47.5	97.3	100.0
1982	52.3	43.7	4.0	47.7	96.0	100.0
1983	50.6	42.2	7.1	49.4	92.9	100.0
1984	52.0	43.1	4.8	48.0	95.2	100.0

^a1984 Preliminary.

Farm equity is expected to have increased 2.4 percent in 1983, to \$852.5 billion. Since equity growth did not keep up with this year's 5-percent inflation rate, the real wealth of the sector declined for the fourth consecutive year. For years, farmers have looked to gains in real wealth for a significant portion of their total returns to farming. Since 1980, however, real capital gains have been negative, raising concerns about the dependability of this important component of total returns to farming.

Some improvement in the debt/asset ratio is expected by January 1, 1984. However, at 20.1 percent, the debt/asset ratio remains at a near-record level. The aggregate debt burden will have improved this year in terms of cash flow. Interest charges on nonreal estate debt are forecast to drop from \$11.3 billion in 1982 to \$10.7 billion, while interest on real estate debt will increase from \$10.5 billion to \$11.1 billion. Hence, total interest charges should remain about the same at \$21.8 billion. The increase in cash income this year will relieve some of the pressure to service farm debt.

Farm Real Estate Debt

Total farm real estate debt is expected to have grown only about 2 percent in 1983 (table 6). This growth rate is down from 3.7 percent in 1982 and the 12.6-percent compound annual rate of growth experienced from 1972 to 1982. The slow growth in farm real estate debt recently reflects the cumulative effects of 4 consecutive years of adverse financial conditions. The high cost of borrowing, relatively low real farm income, and declining farmland values have dampened growth in real estate debt. Total farm real estate debt is forecast to be about \$111.9 billion on January 1, 1984.

Real estate debt held by Federal land banks (FLBs) is expected to have reached about \$48.2 billion. This 2.2-percent increase would be the lowest year-over-year increase since 1949, when real estate debt held by FLBs rose only 1.9 percent. The compound annual rate of growth for FLBs from 1950 to 1980 was 12.1 percent. The growth rate was 16.1 percent during the 1970's. It appears that FLBs' market share has remained unchanged at 43.1 percent—still the largest farm real estate lender.

Life insurance companies' (LICs) outstanding farm real estate debt is expected to have remained unchanged in 1983, leaving the total at \$12.8 billion on January 1, 1984. Funds are more available for agricultural investments, allowing an increase in farm loans from 1982, when LICs' outstanding real estate loans declined 2.3 percent. However, the market share of LICs may continue to fall to about 11.4 percent.

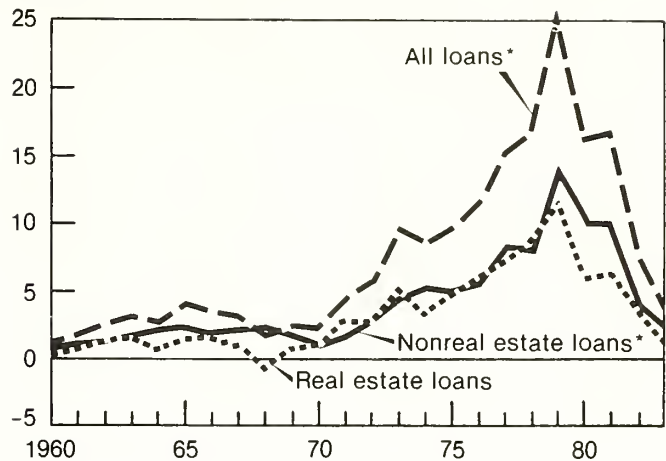
Outstanding real estate debt at commercial banks should rise about 7.6 percent, to \$9.1 billion by January 1, 1984. Their market share is expected to increase from 7.7 percent in 1983 to 8.1 percent in 1984. This relatively strong real estate loan activity on the part of commercial banks results from a higher than normal rate of refinancing nonreal estate loans into real estate secured loans, and from a substantial reduction in the interest rate differential between FBLs and commercial banks.

The Farmers Home Administration (FmHA) is also expected to increase its market share of farm real estate

Figure 3

Annual Change in Farm Debt

\$ billion

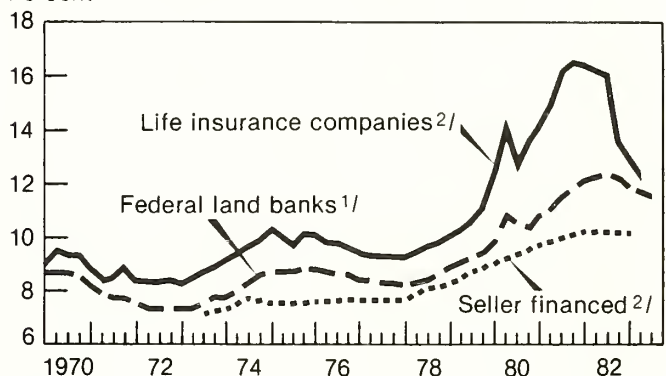


1983 preliminary. *Excluding CCC Loans.

Figure 4

Interest Rates on Farm Real Estate Loans

Percent



Quarterly data for life insurance companies (new commitments) and Federal land banks (new Loans), semi-annual data for seller financed, annual data beginning in 1980. Latest rates are 12.3 for life insurance companies in 3rd qtr. 1983, 11.5 for Federal land banks in November 1983, and 10.2 for seller financed in February 1983.

¹/ Excludes cost of required stock purchases, and new loan fees.

²/ Financing of the sale is provided by the previous owner of the farmland.

debt—from 8.3 percent to about 8.5 percent on January 1, 1984. Outstanding real estate debt held by FmHA is forecast to increase 4.4 percent in 1983, to about \$9.5 billion.

Real estate debt held by individuals and others is forecast to rise only 1 percent this year, bringing the total to about \$32.3 billion. Being a noninstitutional source of financing, it is difficult to obtain information on the real estate debt held by individuals and others. According to the Farm Real Estate Market Developments Survey for the year ending March 1983, farmland sellers financed 33 percent of all farmland transfers, down from 41 percent during the previous year. This, combined with the low level of farmland transfers, has likely reduced the market share of individuals and others—now forecast at 28.9 percent on January 1, 1984.

Table 6—Real estate farm debt, 1971-1984^a

Year	Debt owed to reporting Institutions					Individuals and others	Total
	Federal land banks	Life Insurance companies	All operating banks	Farmers Home Administration	Total		
Million dollars outstanding Jan. 1							
1971	7,145	5,610	3,772	2,440	18,967	11,379	30,346
1972	7,880	5,564	4,219	2,618	20,281	11,911	32,192
1973	9,050	5,643	4,792	2,835	22,320	12,774	35,094
1974	10,901	5,965	5,458	3,013	25,337	14,190	39,527
1975	13,402	6,297	5,966	3,215	28,880	15,757	44,637
1976	15,950	6,726	6,296	3,369	32,341	17,262	49,603
1977	18,455	7,400	6,781	3,657	36,293	18,864	55,157
1978	21,391	8,819	7,780	3,982	41,972	21,335	63,307
1979	24,619	10,478	8,557	4,121	47,775	23,638	71,413
1980	29,642	12,165	8,623	7,111	57,541	27,880	85,421
1981	35,945	12,928	8,745	7,715	65,333	30,180	95,513
1982	43,564	13,074	8,387	8,744	73,769	31,770	105,539
1983	47,180	12,802	8,441	9,085	77,507	32,000	109,507
1984	48,195	12,802	9,085	9,485	79,567	32,320	111,887
Percent change in year							
1971	10.3	-0.8	11.9	7.3	6.9	4.7	6.1
1972	14.8	1.4	13.6	8.3	10.1	7.2	9.0
1973	20.5	5.7	13.9	6.3	13.5	11.1	12.6
1974	22.9	5.6	9.3	6.7	14.0	11.0	12.9
1975	19.0	6.8	5.5	4.8	12.0	9.6	11.1
1976	15.7	10.0	7.7	8.5	12.2	9.3	11.2
1977	15.9	19.2	14.7	8.9	15.6	13.1	14.8
1978	15.1	18.8	10.0	3.5	13.8	10.8	12.8
1979	20.4	16.1	0.8	72.6	20.4	17.9	19.6
1980	21.3	6.3	1.4	8.5	13.5	8.2	11.8
1981	21.2	1.1	-4.1	13.3	12.9	5.3	10.5
1982	8.3	-2.1	0.6	3.9	5.1	0.7	3.8
1983	2.2	0.0	7.6	4.4	2.7	1.0	2.2
Percentage distribution of debt outstanding Jan. 1							
1971	23.5	18.5	12.4	8.0	62.5	37.5	100.0
1972	24.5	17.3	13.1	8.1	63.0	37.0	100.0
1973	25.8	16.1	13.7	8.1	63.6	36.4	100.0
1974	27.6	15.1	13.8	7.6	64.1	35.9	100.0
1975	30.0	14.1	13.4	7.2	64.7	35.3	100.0
1976	32.2	13.6	12.7	6.8	65.2	34.8	100.0
1977	33.5	13.4	12.3	6.6	65.8	34.2	100.0
1978	33.8	13.9	12.3	6.3	66.3	33.7	100.0
1979	34.5	14.7	12.0	5.8	66.9	33.1	100.0
1980	34.7	14.3	10.1	8.3	67.4	32.6	100.0
1981	37.6	13.5	9.2	8.1	68.4	31.6	100.0
1982	41.3	12.4	7.9	8.3	69.9	30.1	100.0
1983	43.1	11.7	7.7	8.3	70.8	29.2	100.0
1984	43.1	11.4	8.1	8.5	71.1	28.9	100.0

^a1984 Preliminary.

Farm Nonreal Estate Debt

The total outstanding nonreal estate debt is forecast to decline 3.4 percent in 1983, to \$103.2 billion (table 7). This would be the first decline since 1956, when it dropped 2.6 percent. The decline was due to lower demand for farm input financing and a large drop in CCC loans outstanding. Demand was down because of reductions in input use caused by PIK and other acreage reduction programs and by many farmers' desire to reduce their debt.

Commercial banks' nonreal estate debt is forecast to grow 6.6 percent in 1983, to \$38.5 billion. This constitutes the largest percentage increase of all nonreal estate lenders this year. The market share of commercial banks increased in 1983 to 37.3 percent, from 33.8 percent the previous year. The last year that banks

gained market share was in 1973, when their market share increased to 50.8 percent. Banks' strong loan activity is a result of more competitive interest rates relative to production credit associations (PCAs), and from high liquidity, which has made banks aggressive in seeking quality customers.

Outstanding PCA nonreal estate farm debt declined for a second year. PCA debt is forecast at \$18.9 billion, down 5.8 percent from last year. The recent decline in PCA nonreal estate farm debt is in sharp contrast to its growth in the 1960's and 1970's when PCA debt outstanding grew at a 14-percent compound annual rate. The dramatic reduction in PCA debt growth in the early 1980's reflects the difficult financial situation in the farm sector and improved competitiveness and increased aggressiveness of commercial banks.

Table 7—Nonreal estate farm debt, 1971-1984^a

Year	Debt owed to reporting Institutions (excluding CCC)					Individuals and others ^d	Total excluding CCC loans	CCC price support and storage loans	Total, including CCC loans
	All operating banks	Production credit assoc. ^b	Federal Intermediate credit banks ^c	Farmers Home Admin.	Total				
	Million dollars outstanding Jan. 1								
1971 . . .	11,102	5,295	220	795	17,412	4,850	22,262	1,876	24,138
1972 . . .	12,498	6,078	237	771	19,584	5,530	25,114	2,262	27,376
1973 . . .	14,315	6,607	251	781	21,954	6,011	27,965	1,793	29,758
1974 . . .	17,167	7,814	331	877	26,189	6,865	33,054	750	33,804
1975 . . .	18,238	9,482	374	1,044	29,138	7,549	36,687	319	37,006
1976 . . .	20,160	10,717	350	1,772	32,999	8,553	41,552	375	41,927
1977 . . .	23,283	12,170	368	1,877	37,698	9,989	47,687	1,040	48,727
1978 . . .	25,709	13,428	374	3,141	42,652	12,244	54,896	4,540	59,436
1979 . . .	28,273	14,876	509	5,780	49,438	14,297	63,735	5,666	69,401
1980 . . .	31,034	18,021	665	8,982	58,702	16,610	75,312	5,070	80,382
1981 . . .	31,567	19,611	810	11,756	63,744	17,721	81,465	4,978	86,443
1982 . . .	32,948	21,014	913	14,452	69,327	18,780	88,107	8,011	96,118
1983 . . .	36,149	20,070	871	14,759	71,849	19,530	91,379	15,433	106,812
1984 . . .	38,535	18,905	785	15,600	73,825	18,945	92,770	10,417	103,187
	Percent change in year								
1971 . . .	12.6	14.8	7.7	-3.0	12.5	14.0	12.8	20.6	13.4
1972 . . .	14.5	8.7	5.9	1.3	12.1	8.7	11.4	-20.7	8.7
1973 . . .	19.9	18.3	31.9	12.3	19.3	14.2	18.2	-58.2	13.6
1974 . . .	6.2	21.3	13.0	19.0	11.3	10.0	11.0	-57.5	9.5
1975 . . .	10.5	13.0	-6.4	69.7	13.3	13.3	13.3	17.6	13.3
1976 . . .	15.5	13.6	5.1	5.9	14.2	16.8	14.8	177.3	16.2
1977 . . .	10.4	10.3	1.6	67.3	13.1	22.6	15.1	336.5	22.0
1978 . . .	10.0	10.8	36.1	84.0	15.9	16.8	16.1	24.8	16.8
1979 . . .	9.8	21.1	30.6	55.4	18.7	16.2	18.2	-10.5	15.8
1980 . . .	1.7	8.8	21.8	30.9	8.6	6.7	8.2	-1.8	7.5
1981 . . .	4.4	7.2	12.7	22.9	8.8	6.0	8.2	60.9	11.2
1982 . . .	9.7	-4.5	-4.6	2.1	3.6	4.0	3.7	92.6	11.1
1983 . . .	6.6	-5.8	-9.9	5.7	2.8	-3.0	1.5	-32.5	-3.4
	Percentage distribution of debt outstanding Jan. 1								
1971 . . .	46.0	21.9	0.9	3.3	72.1	20.1	92.2	7.8	100.0
1972 . . .	45.7	22.2	0.9	2.8	71.5	20.2	91.7	8.3	100.0
1973 . . .	48.1	22.2	0.8	2.6	73.8	20.2	94.0	6.0	100.0
1974 . . .	50.8	23.1	1.0	2.6	77.5	20.3	97.8	2.2	100.0
1975 . . .	49.3	25.6	1.0	2.8	78.7	20.4	99.1	0.9	100.0
1976 . . .	48.1	25.6	0.8	4.2	78.7	20.4	99.1	0.9	100.0
1977 . . .	47.8	25.0	0.8	3.9	77.4	20.5	97.9	2.1	100.0
1978 . . .	43.3	22.6	0.6	5.3	71.8	20.6	92.4	7.6	100.0
1979 . . .	40.7	21.4	0.7	8.3	71.2	20.6	91.8	8.2	100.0
1980 . . .	38.6	22.4	0.8	11.2	73.0	20.7	93.7	6.3	100.0
1981 . . .	36.5	22.7	0.9	13.6	73.7	20.5	94.2	5.8	100.0
1982 . . .	34.3	21.9	0.9	15.0	72.1	19.5	91.7	8.3	100.0
1983 . . .	33.8	18.8	0.8	13.8	67.3	18.3	85.6	14.4	100.0
1984 . . .	37.3	18.3	0.8	15.1	71.5	18.4	89.9	10.1	100.0

^a1984 Preliminary. ^b1975-82 revised to exclude aquatic loans. ^cFinancial Institutions other than PCA's that obtain funds from the FICB's.

^dIncludes Small Business Administration farm loans estimated at \$.3 bl., \$1.7 bl., \$2.4 bl., \$2.6 bl., \$3.2 bl., \$2.8 bl. and \$2.4 bl. for Jan. 1, 1978, 1979, 1980, 1981, 1982, 1983, and 1984 respectively.

The loans held by Federal intermediate credit banks (FICBs) are expected to decline again this year to about \$785 million, a 9.9-percent drop. FICBs provide funds to "other financial institutions (OFIs)," primarily agricultural credit corporations affiliated with commercial banks. Because commercial banks have ample funds at competitive rates and the overall demand for farm loans is down, the need to form OFIs to access FICB funds remains low.

FmHA nonreal estate debt is forecast to increase 5.7 percent in 1983, to about \$15.6 billion. Although this increase is greater than that of total nonreal estate debt (which actually declined), allowing FmHA to increase its market share to 15.1 percent, it is a much smaller increase than the 50-percent annual rate of growth experienced by FmHA from 1977 to 1981. FmHA made

Economic Emergency (EE) loans from 1978 to 1981, resulting in rapid growth in its nonreal estate loan portfolio.

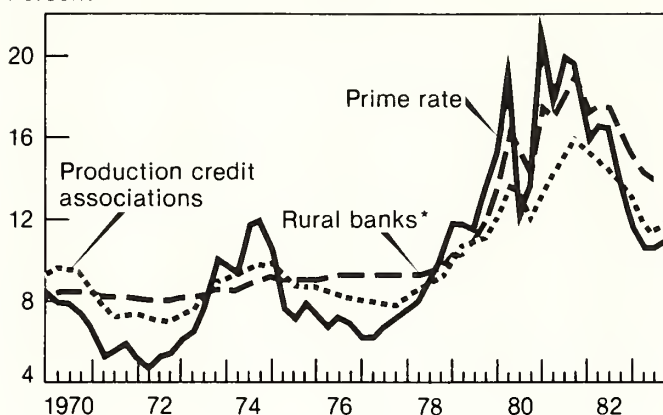
In 1981, FmHA stopped making EE loans, although it had the authority to lend \$600 million under that program. Recently, a court order required the agency to exercise its authority and to lend the \$600 million between December 1983 and December 1984. Also, the 1983 drought will spur considerable lending in 1984 under the Emergency Disaster program. Hence, FmHA nonreal estate lending should be quite active in 1984.

Nonreal estate debt held by individuals and others is forecast to drop 3 percent in 1983. Adverse financial conditions and reduced acres planted lowered use of purchased inputs, many of which individuals and others pro-

Figure 5

Interest Rates on Nonreal Estate Farm Loans and the Prime Rate Charged by Banks

Percent



*Short-term production loans, Minneapolis Federal Reserve District. First day of quarter. 1983 preliminary.

Table 8—Loan funds supplied by six large full-line farm machinery manufacturers for retail purchases of farm machinery and equipment^a

	Loans outstanding end of year		Loans made during year	
	Million dollars	Percent change	Million dollars	Percent change
1970	1,170	—	928	—
1971	1,179	.7	936	.9
1972	1,499	27.1	1,329	42.0
1973	1,183	-21.1	1,065	-19.9
1974	1,160	-1.9	876	-17.7
1975	1,530	31.9	1,236	41.1
1976	2,192	43.3	1,915	54.9
1977	3,067	39.9	2,682	40.1
1978	3,131	2.1	2,661	-.8
1979	3,488	11.4	3,133	17.7
1980	4,860	39.3	4,396	40.3
1981	6,129	26.1	4,683	6.5
1982 ^b . . .	5,897	-3.8	3,842	-18.0
1983 ^c . . .	5,524	-6.3	3,414	-11.1

^aExcludes loans estimated to have been made for nonfarm purposes. Years shown are company fiscal years: October 31 for 4 companies, December 31 for the other two. Data, including estimates for 1983 and revisions, were provided by the six companies. ^bRevised. ^cEstimated.

vide and finance. For example, the farm loans outstanding for six full-line manufacturers of farm machinery dropped about 6 percent in 1983, the largest decline since 1973 when it fell 21.1 percent (table 8). The market share of nonreal estate farm debt for individuals and others is expected to remain unchanged at about 18.4 percent.

The level of CCC nonreal estate debt is the most volatile of all the nonreal estate farm lenders. CCC lending is influenced directly by crop production, interest rates, farm price-support policy, and other factors that affect agricultural commodity prices. This year, high market prices for feed grains and cotton caused by drought and acreage reduction programs led to few new CCC loans. This combined with the disbursement of PIK entitlements and redemptions of non-PIK loans reduced CCC outstanding debt 32.5 percent. Outstanding CCC nonreal estate debt is expected to be about \$10.4 billion on January 1, 1984, giving the agency a 10-percent market share.

Cash Sources and Uses of Funds

The preliminary estimate for cash sources of funds is \$93.7 billion for 1983, an increase of \$5.6 billion over last year (table 9). Net cash farm income increased about 11 percent, largely due to government payments and reduced production expenses, but the reduced net flow of loan funds to the farm sector held the overall increase in cash sources to about 6.4 percent. A reduction in liquid balances and inventories allowed annual capital formation to stay in line with 1982 amounts—falling only by \$1.5 billion.

Cash Sources of Funds

Income from Farm and Nonfarm Sources. Net cash farm income from farm and nonfarm sources is estimated to be \$89.9 billion for 1983, up \$9.0 billion from 1982. Government payments, primarily PIK, accounted for most of the increase, going up by \$5.8 billion, while cash expenses fell nearly \$4 billion, further enhancing income. Off-farm income increased \$1.4 billion.

The ratio of net cash income from all sources to total cash uses of funds measures the degree to which farmers provide their own equity financing. This ratio rose sharply in 1983, indicating that farmers are using a larger percentage of internally generated funds to finance capital accumulation than in the past.

Real net cash income (1967 dollars) rose for the first time since 1979 going from \$28.0 billion in 1982 to \$30.1 billion in 1983, a 7.5 percent increase. This was due to the drop in the inflation rate and record large nominal value.

Farm Borrowing. Net farm borrowing is forecast to decrease by 47 percent or \$3.4 billion. The largest decrease was in the net flow of nonreal estate debt, primarily a result of reduced expenses due to PIK, a sluggish real estate market, and the decline in overall quality of the farm loan portfolio as expressed by bankers surveyed by the American Bankers Association. The ratio of total debt outstanding to total net cash farm income is a measure of the relative burden of debt against income. This ratio fell sharply in 1983, returning it to 1981 levels.

Cash Uses of Funds

Total cash available for 1983 is estimated to be \$93.7 billion. Uses of funds include the acquisition of capital assets, purchase of consumption items, and withdrawals for off-farm investment. Annual capital formation fell \$1.5 billion, financed in part by a reduction in inventories. Annual capital formation for 1983 is expected to be \$19.1 billion, a 7.3 percent decrease over 1982. This category includes net additions to household furnishings, commercial bank deposits and currency savings bonds, equity in farmer cooperatives, and purchases of breeding livestock. The balance sheet shows that holdings of financial assets rose, indicating that the decline in other capital purchases should be attributed to a decrease in the net additions to household furnishings and a decline in breeding stock purchased. Inventories fell an additional \$6 billion in 1983, providing a source of internally generated funds. Overall capital flow fell \$7.5 billion or 40.1 percent.

Table 9—Cash sources and uses of funds for the U.S. farming sector, 1971-1984

	1971	1972	1973	1974	1975	1976	1977 ^a	1978	1979	1980	1981	1982	1983 ^b	1984 ^c
<i>Billion dollars</i>														
Cash sources of funds: ^d														
1. Net cash income-all sources ^e	39.5	48.0	66.4	67.2	57.8	60.4	57.3	71.4	79.6	82.0	80.5	80.9	89.9	93.5
2. Net flow of real estate loans ^e	1.8	2.9	4.4	5.1	5.0	5.6	8.2	8.1	14.0	10.1	10.1	3.9	2.4	3.6
3. Net flow of nonreal estate loans ^f . .	2.9	2.9	5.1	3.6	4.9	6.1	7.2	8.8	11.6	6.2	6.6	3.3	1.4	2.5
4. Total cash sources of funds	44.2	53.8	75.9	75.9	67.7	72.1	72.7	88.3	105.2	98.3	97.2	88.1	93.7	99.6
Cash uses of funds:														
5. Purchases of machinery and motor vehicles	4.9	5.7	7.6	8.2	8.7	10.0	10.6	12.7	14.3	12.8	12.1	10.0	10.0	11.9
6. Capital improvements to real estate assets	2.5	2.4	3.1	4.4	4.7	5.0	5.9	6.9	6.7	6.9	5.9	5.4	5.2	6.1
7. Other capital purchases ^g	3.0	6.4	4.0	-1.7	2.9	2.6	3.4	6.8	4.9	4.7	3.8	5.2	3.9	4.2
8. Annual capital formation	10.4	14.5	14.7	10.9	16.3	17.6	19.9	26.4	25.9	24.4	21.8	20.6	19.1	22.2
9. Other cash uses incl. personal consumption, nonfarm invest., and purchases of real estate from discontinuing proprietors ^h . .	33.8	39.3	61.2	65.0	51.4	54.5	52.8	61.9	79.3	73.9	75.4	67.5	74.6	77.4
10. Total cash uses of funds	44.2	53.8	75.9	75.9	67.7	72.1	72.7	88.3	105.2	98.3	97.2	88.1	93.7	99.6
Capital flow:														
11. Annual capital formation	10.4	14.5	14.7	10.9	16.3	17.6	19.9	26.4	25.9	24.4	21.8	20.6	19.1	22.2
12. Change in inventories	1.4	0.9	3.4	-1.6	3.4	-1.5	1.1	0.8	4.9	-5.3	7.6	-1.9	-7.9	6.9
13. Total capital flow	11.8	15.4	18.1	9.3	19.7	16.1	21.0	27.2	30.8	19.1	29.4	18.7	11.2	29.1
<i>Percent</i>														
Real dollar flows:														
Total net cash income/CPI	32.6	38.3	49.9	45.5	35.9	35.4	31.6	36.5	36.6	33.2	35.4	28.0	30.1	29.7
Other cash uses incl. personal consumption, nonfarm invest., and purchases of real estate from discontinuing proprietors/CPI	27.9	31.4	46.0	44.0	31.9	32.0	29.1	31.7	36.5	29.9	33.2	23.3	25.0	24.6
Analytical ratios:														
Annual capital formation/Total net cash income (line 8/1)	26.3	30.2	22.1	16.2	28.2	29.1	34.7	37.0	32.5	29.8	27.1	25.5	21.2	23.7
Total net flow of loans/Annual capital formation ((2+3)/8)	45.2	40.0	64.6	79.8	60.7	66.5	77.4	64.0	98.8	66.8	76.6	35.0	19.9	27.5
Total net flow of loans/Total capital flow ((2+3)/13)	39.8	37.7	52.5	93.5	50.3	72.7	73.3	62.1	83.1	85.3	56.8	38.5	33.9	21.0
Net cash income/Total cash uses (1/10)	89.4	89.2	87.5	88.5	85.4	83.8	78.8	80.9	75.7	83.4	82.8	91.8	95.9	93.9
End of year debt outstanding/Total cash income	151	135	110	121	158	172	214	197	208	222	251	267	239	237

^aChanges in the definition of a "farm" starting in 1977 caused a significant reduction in the level of nonfarm income of farm firms. ^bPreliminary. ^cForecast. ^dCash sources of funds from sale of real estate to the nonfarm sector are not included due to lack of data. ^eIncludes farm households, excludes labor perquisites and breeding livestock in calculation of production expenses before subtracting from gross cash income. ^fDoes not include CCC loans. ^gIncludes net additions to household furnishings, commercial bank deposits and currency savings bonds, equity in farmer cooperatives and purchases of breeding livestock. ^hA separate line item for "purchases of real estate from discontinuing proprietors" has been discontinued due to data deficiency.

The ratio of net flow of loan funds to annual capital formation, which measures how important borrowed funds are in financing capital acquisitions, is estimated to fall substantially, from 35.0 in 1982 to 19.9 in 1983. This indicates a reduction in the use of loan funds to finance capital formation. The ratio of annual capital formation to net cash income fell 16.7 percent, from 25.5 to 21.2, indicating producers are postponing machinery replacement and real estate improvements.

Personal Consumption and Other Cash Uses. Personal consumption and other cash uses include expenditure for food, clothing, taxes, other personal consumption items and nonfarm investments, as well as any purchase of real estate from discontinuing proprietors. This category increased \$7.1 billion, or 10.5 percent, and in real terms, 7.4 percent.

Outlook For 1984

Factors Affecting Farm Income

Current prospects suggest farmers' income in 1984 will continue to improve, compared to the past few years. The net farm income outlook for 1984 includes assumptions not only about next year's crop and livestock prices and production, but also about carryover at the end of next year. Current prospects will be influenced in coming months by production and acreage decisions here and abroad; by farmer's decisions on program participation next spring; by decisions on input use and capital purchases; by strength of the developing economic recovery here and abroad, especially as the recovery affects interest rates and input prices; and of course, by the weather during the coming growing season.

In 1984, prices received are currently forecast to average 4 to 6 percent above this year's level as crop prices rise 7 to 9 percent and livestock prices increase 1 to 3 percent. During the first half of 1984, farm prices will likely average above a year earlier, but weaken during the second half because of strong crop production. The 1984 general crop price pattern is expected to resemble that of 1981's (which followed the 1980 drought).

Meanwhile, prices paid may rise 5 to 7 percent as farm origin inputs rise 6 to 8 percent and as nonfarm origin inputs rise 5 to 7 percent. The increase in prices paid, although greater than the past 2 years (4 percent in 1982 and 3 percent in 1983), reflects the continued moderation in the general inflation rate. Seed prices are expected to rise the most from 1983 levels—perhaps more than a tenth—because of the impact of the drought. Some stability in interest rates is expected during most of the year. This will help control interest expenses for the second consecutive year.

It now appears that total cash receipts will more than offset a projected drop in direct Government payments, and leave gross income well above the level expected for 1983. Cash Government payments in 1984 will likely be reduced from those expected for 1983, as strong market prices during the last part of 1983 and into 1984 reduce or eliminate the obligation of deficiency payments for many crops. However, deficiency payments for wheat will likely account for a large percentage of cash Government payments. Provisions contained in the Dairy and

Tobacco Adjustment Act of 1983 for milk diversion payments will also add to cash payments in 1984.

The value of PIK commodities disbursed during early 1984 is expected to be \$3 to \$5 billion, adding significantly to gross farm income. Except for the completion of the 1983 PIK program redemptions, the 1984 PIK program, and the milk diversion program, 1984 farm programs are not expected to play as strong a role in the financial performance of the farm sector as they did in 1983. However, with larger crops in 1984, prices during the last quarter could fall below target levels for many commodities, triggering deficiency payments that would be disbursed (except wheat and barley) mostly during calendar 1985.

Cash receipts are expected to increase 3 to 6 percent above the expected 1983 level of \$142 billion, reflecting higher average prices for both crops and livestock. Despite lower dairy and cattle receipts, livestock receipts could rise slightly as poultry and egg receipts increase because of higher prices.

Because of strong first-half prices and second-half marketings, crop cash receipts in 1984 are expected to gain 4 to 8 percent, led by increases for oil crops, cotton, and feed grains. With input use expected to climb back near the 1982 level and prices paid expected to rise around the rate of inflation, production expenses in 1984 could rise 7 to 9 percent above the level forecast for 1983. Outlays for manufactured inputs will likely rise the fastest followed by other operating expenses as farmers increase planted acreages. Expenses for manufactured inputs, which will be heavily influenced by the increase in planted acreages, will likely rise at a faster pace than interest charges and farm origin input expenses. The largest increase in expenses will likely occur for fertilizer, fuels, seeds, pesticides, repairs and operation, hired labor, and machine hire. With price increases now expected to be near the inflation rate, a portion of the increase in expenses will result from increased input use, reflecting an anticipated return to more normal planted acreages.

Acreage planted, and thus to a great extent input use, could be affected by participation in farm programs. If participation is as large or larger than in 1983, the forecast of input use and production expenses could decline somewhat from levels currently expected. However, even given strong program participation, the percentage rise in production expenses will likely exceed that of the index of prices paid by farmers.

The pattern of cash income growth could be altered in 1984 even though total nominal cash income could again be at near-record levels. Growth in crop and livestock receipts is expected to more than offset the decline in Government payments, leaving total cash income (cash receipts, Government payments, other cash income) up modestly. But, even with probable increases in total cash income, net cash income could drop. Both input prices and use are expected to increase next year and jointly contribute to a substantial rise in total cash expenses, which will offset the gain in total cash income.

In 1984, gross cash flow could remain near 1983's expected level, but the sources of funds could change again, with increases in borrowing offsetting a decrease in net cash income. Capital expenditures are also expected to

increase measurably for the first time in 4 years, leaving net cash flow down fractionally from 1983, but still above the 1982 low.

With 1984 crop output expected to be substantial, the change in inventory values should add considerably to net farm income. Overall, with increases in gross income offset by larger production expenses, the current perspective is that total net farm income in 1984 should rise above the 1983 level, reflecting the positive inventory accumulations caused by rebuilding crop stocks.

Farm Sector Balance Sheet

The value of total farm assets is forecast to increase about 2.8 percent in 1984, to \$1,097.6 billion (table 10). The expected change in real estate values will be the driving force behind the value of total assets, because real estate constitutes about 74 percent of total farm assets. The value of farm sector real estate is forecast to rise only 2.8 percent during 1984. Improved, but continued low, farm income and high interest rates will result in continued weakness in the farm real estate market. In real terms, real estate values are expected to maintain a slide that began in 1981, when values dropped for the first time since 1953.

Farm real estate debt is forecast to rise 3.2 percent in 1984, to \$115.5 billion. This would extend to 3 years a period of slow growth in real estate debt, and it reflects a weak and uncertain farmland market, as well as high costs of borrowing in 1984. Nonreal estate debt is also expected to grow about 3 percent in 1984, to \$106.3 bil-

lion. After declining by 3 percent in 1983, nonreal estate debt should increase next year because of a greater demand for operating and intermediate term credit to replace existing capital stock and gear up for increased production.

Farm sector equity will grow slowly in 1984. By January 1, 1985, farm equity will reach only about \$876 billion, up 2.7 percent. Hence, the real wealth of the sector will continue to fall in the coming year. The debt/asset ratio is expected to be about 20.2 percent on January 1, 1985, leaving this measure of financial leverage at a near record.

Cash Sources and Uses of Funds

Total cash sources of funds for 1984 are forecast to be \$99.6 billion, up \$5.9 billion from 1983. Cash income is expected to increase \$3.6 billion or 4 percent. Real income will fall \$0.4 billion bringing it in line with 1981 levels. The net flow of real estate debt is forecast to increase 50 percent, and the net flow of nonreal estate debt is forecast to increase 79 percent, providing an additional \$2.3 billion to cash sources of funds.

Annual capital formation is expected to increase \$3.1 billion from 1983, with the largest increase occurring in purchases of machinery and motor vehicles. Real capital formation is expected to increase \$0.66 billion. The ratio of annual capital formation to cash income and net flow of loan funds to annual capital formation will be above 1983, but not as high as 1982. Other uses of funds will show a moderate increase, but the real value of other cash uses, including personal consumption, will fall.

Table 10—Balance sheet of the farming sector, 1984-1985

Items/Years (Jan. 1)	1984 ^a	1985 ^b	Percent change
<i>Billion dollars</i>			
Assets			
Physical assets:			
Real estate.	792	814	2.8
Nonreal estate			
Livestock and poultry	51.3	52.3	1.9
Machinery and motor vehicles	113.8	115.5	1.5
Crops stored on and off-farm	37	38.3	3.5
Household equipment and furnishings.	23.5	25.3	7.7
Financial assets:			
Deposits and currency	18.2	19.6	7.7
U.S. Savings bonds and investments in cooperatives	31.8	32.6	2.5
Total assets	1,067.6	1,097.6	2.8
Claims			
Liabilities:			
Real estate debt.	111.9	115.5	3.2
Nonreal estate debt.	103.2	106.3	3.0
Total liabilities	215.1	221.8	3.1
Proprietors' equity	852.5	875.8	2.7
Total claims	1,067.6	1,097.6	2.8
Debt-to-asset ratio	20.1	20.2	0.3

^aPreliminary. ^bForecast.

FINANCIAL OUTLOOK AND SITUATION BY TYPE OF FARM

Livestock Farms

Dairy

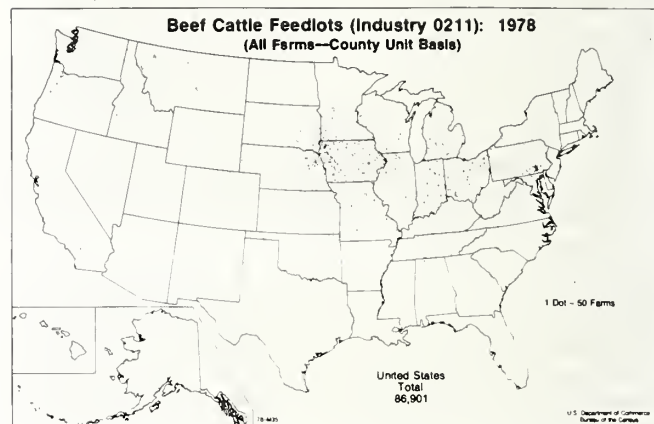
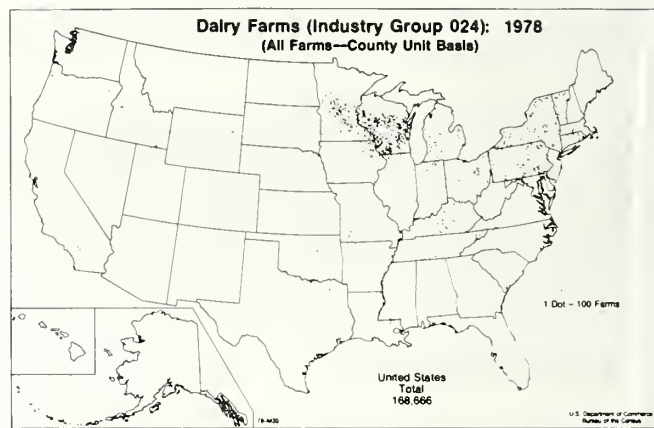
Financial conditions for dairy farmers during 1984 may not be as strong as in 1983. New dairy legislation was signed into law on November 29, 1983, and supersedes all dairy provisions of the Omnibus Budget Reconciliation Act of 1982. Under the new law, the minimum support level through September 30, 1985, is set at \$12.60 per cwt. There is also a 15-cent-per-cwt deduction for dairy product promotion, research, and nutrition education, and a 50-cent-per-cwt deduction to help fund a paid diversion program. The paid diversion program will be \$10 per cwt for reductions in marketings from a certain base. Given the lower level of support, the all-milk price under the new legislation is expected to be below year-earlier levels through the flush period. Then, if a better balance between supply and demand is achieved, the all-milk price could be even with or above year-earlier levels late in 1984.

The new law will play a key role in determining the size of 1984 milk output. Under uncertain conditions, dairy producers tend to postpone major production decisions—delaying some producers from leaving the market and others from reducing herds. As a result, continued price-support uncertainties would likely have prolonged the current expansion in milk production. However, with the enactment of the new dairy legislation, 1984 cow numbers should decrease sharply. Lower returns to milk, higher feed costs, the paid diversion program, and better off-farm employment opportunities should cause dairy farmers to cull more intensively. Given this expected decline in cow numbers, production is projected to be down 4 to 10 percent.

The overall financial condition of dairy farmers deteriorated during 1983. While prices received for all-milk probably won't change much from 1982's \$13.59, the 50-cent deductions, which started in April and September, will lower the effective returns to farmers by about 60 cents. In addition, higher grain prices for the latter part of 1983 are expected to reduce producer's net income even further. The production expansion that began in mid-1979 continued throughout 1983. As a result, 1983 milk production will be about 2 percent above the record 135.8 billion pounds in 1982. This increased production for 1983 is due to a slight increase in the dairy herd, and to about a 2-percent increase in output per cow.

Cattle Feeding

Uncertainty about beef production levels and prices in 1984 has increased because of the Dairy and Tobacco Adjustment Act signed into law on November 29, 1983. However, there is much uncertainty about producers' responses and the type and timing of marketing adjustments. Also, producers have many ways in which they can reduce milk marketings, such as reducing cow numbers, cutting output per cow, and increasing on-farm use of milk produced. The Secretary of Agriculture has the discretion to make certain contract adjustments to



minimize any adverse impact that reducing milk marketings will have on livestock and poultry producers. Each 100,000-head increase in dairy cow slaughter would raise beef production 67 to 70 million pounds and have a negative impact on livestock and poultry prices.

Beef production in 1984 was expected to decline below the larger 1983 levels. Production will remain above a year earlier through winter, but the declines (below 1983 levels) expected for the remainder of the year are now more uncertain. Fed cattle marketings will decline from 1983's larger level, but remain above the levels of recent years. Sharpest year-to-year declines will occur in nonfed beef cattle slaughter as the new grazing season begins, and as the potentially large 1984 grain harvest becomes more certain. However, increased dairy cow slaughter will raise beef production estimates, particularly in first-half 1984.

Prices for Choice fed steers at Omaha rose into the lower \$60's this fall and are likely to remain in this range this winter, before peaking in late spring through early summer as total meat supplies decline. Prices are expected to hold much of their first-half 1984 gains, but will decline seasonally in the fall. Good grazing conditions and a large grain harvest next fall will be essential in holding down second-half nonfed slaughter. Prices for the period are expected to range between \$65 and \$69. Increased dairy cow slaughter will hold down price gains, particularly through early summer.

Cattle feeders should again face improved margins in late winter through midsummer. However, small calf

crops over the past several years have resulted in a decline in feeder cattle supplies, which will begin to have an increasing impact on feeder cattle prices next spring. Consequently, higher feeder cattle prices and lower grain prices may hold down returns in second-half 1984.

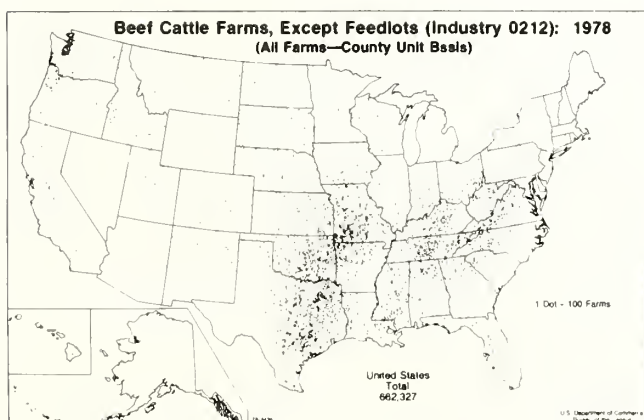
Reactions of livestock producers to low grain prices in the second half of 1982, and a strengthening economy beginning in early 1983 resulted in increased livestock production, particularly in second-half 1983. Grain prices rose sharply in early 1983 because of the PIK program, and accelerated further because of the drought. While conditions in late 1982 and early 1983 encouraged increased production, the drought and reduced forage supplies this summer resulted in the slaughter of livestock that otherwise might have been retained for the breeding herd.

Total beef and fed beef production in 1983 was the largest since 1978. These larger beef supplies and very large supplies of competing meats, together with sharply higher feed costs, resulted in another year of poor returns for cattle feeders. Feeder steer prices averaged well above a year earlier in the fall of 1982 and through first-half 1983. However, as feed prices rose and fed cattle prices declined from midyear, feeder cattle prices were bid down to compensate for the higher feed costs. Cattle marketed during the spring quarter, when fed cattle prices peaked, were profitable. Otherwise, producers lost money for the remainder of the year. Cattle feeders were able to cover feed and feeder cattle costs, but little if any returns were available to cover other inputs.

Cow-Calf (Cattle Raising)

Yearling feeder steer prices should move above fed cattle prices in late winter and spring as producers anticipate higher fed cattle prices and another large grain harvest. Prices for yearling steers at Kansas City should move up to \$70 per cwt next spring, and remain in the upper \$60's through second-half 1984. Feeder calf prices should show even greater strength as demand for stocker cattle and lower grain prices increase the competition for the reduced supply of calves. Larger beef supplies and lower fed cattle prices should hold down price gains.

Higher feeder cattle prices next fall and improved prospects for 1985 will provide the first incentives in several years for feeder cattle producers to even consider herd expansion. However, herd expansions made in early 1985 would not be marketed until the fall of 1986.



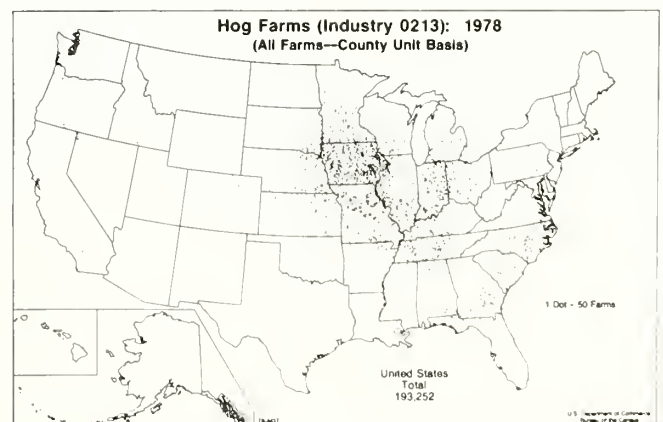
Drought and another year of poor feeder cattle prices have resulted in continued financial pressure for cattle producers. Cow slaughter declined modestly through mid-1983; however, in the second half it has been well above the larger levels of a year ago. Reduced forage supplies have encouraged producers to cull their herds closely this fall. Forage supplies are adequate, but an unusually harsh winter and heavier supplemental feeding would force additional cows on the slaughter market. Consequently, the beef cow herd is expected to decline again on January 1, 1984, and the 1984 calf crop is likely to decline for the fourth consecutive year.

The number of feeder cattle outside feedlots on October 1, 1983, available for feedlot placement or nonfed slaughter, was up slightly from a year ago. Calf numbers, representing 82 percent of the supply, declined 2 percent. This reflects the declining 1983 calf crop and would have been even lower without a 28-percent decline in the number of calves on feed on this date. The yearling supply was up 12 percent. Despite the drought, the movement of feeder cattle in late summer through fall has been below a year ago. Producers are attempting to overwinter as many cattle as possible at heavier weights, for higher prices next spring.

Hogs

Net income to hog producers declined in 1983 because of sharply higher feed prices and lower hog prices. Deteriorating returns to producers and prospects for continued high feed costs and weak hog prices caused producers to halt expansion of breeding herds and to begin reducing them in the summer and fall of 1983. Also, producers intend to have fewer sows farrow in 1984. In the September Hogs and Pigs report, producers indicated a 4-percent increase in sow farrowings in September-November from a year earlier, whereas in June, producers had indicated an 8-percent increase for the same period. For December 1983-February 1984, producers indicate they intended a 1-percent decrease in sow farrowings from a year ago.

Total commercial pork production in 1984 is expected to be down 2 percent from 1983, with all the decline in the second half of the year. Commercial pork production in the first quarter is forecast to increase 8 percent above a year earlier, while production in the second quarter is expected to be up 1 percent. However, production in the third and fourth quarters is expected to be down 7 to 9 percent.



Hog prices in the first-quarter 1984 are expected to average \$41 to \$45 per cwt at 7 markets, then rise as production moderates on a year-over-year basis and average \$42 to \$46 per cwt in the second quarter. However, the large increase in beef production in the second quarter will limit the rise in hog prices. As year-over-year production drops in second-half 1984, prices are expected to average \$52 to \$56, per cwt in the third quarter, and \$50 to \$54 in the fourth.

Feeding costs are expected to lower during the second half of 1984 because of expected larger 1984 corn and soybean crops. However, feed costs should stay sharply higher than a year earlier during the first half of 1984, as supplies tighten and the coming crop remains uncertain.

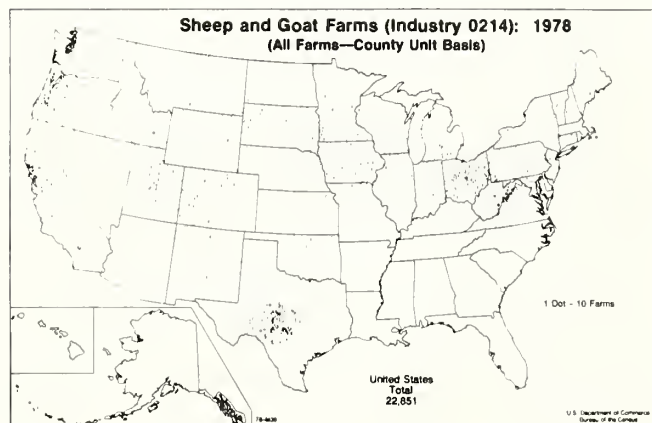
Hog producers' financial conditions should improve in 1984, especially in the second half of the year. By fourth-quarter 1984, producers are expected to cover cash costs and the imputed charge for unpaid labor. In addition, some contributions to fixed costs are possible in this quarter.

Because of poor returns especially in the second half of 1983, producers began to reduce their breeding herds. Hog prices for 1983, at \$47 per cwt, are expected to average \$8 per cwt less than in 1982. Sharply higher corn and soybean meal prices due to drought and acreage reduction programs have contributed substantially to the poor returns.

Sheep and Lambs

The 1984 financial outlook for sheep producers is expected to improve somewhat. In 1984, Choice lamb prices at San Angelo may average \$56 to \$59 per cwt—up slightly from 1982 and 1983. Commercial lamb and mutton production may decline about 13 percent in 1984, because of herd liquidation in 1982 and 1983. Returns to sheep producers are expected to cover cash costs and imputed labor charges. Some contribution to fixed costs is expected. Given normal weather, some herd rebuilding is expected in Texas.

Overall financial conditions of sheep producers continued to deteriorate in 1983. Choice lamb prices at San Angelo are expected to average \$56 to \$57 per cwt, compared to \$56.44 in 1982.



Poultry

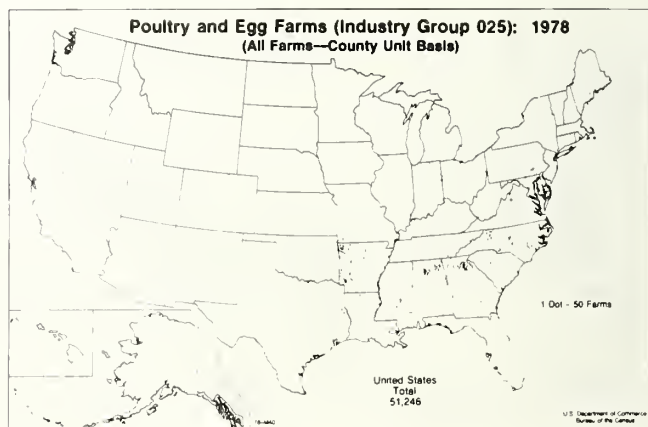
The financial outlook in 1984 is unfavorable until feed costs decline, which may not occur until the third or fourth quarters. The combined impacts of the drought and the PIK program cut corn and soybean production, pushing up the cost of feed. The price of corn has not been as high as forecast for the fourth quarter of 1983, but prices likely will be higher in the spring and summer of 1984, and this may mean that prices will be higher in the spring and summer than expected earlier. Supplies of red meat are expected to decline by the third quarter, and with continued improvement in the general economy, prices of poultry and eggs will likely continue to rise and offset the higher costs.

While the general economy is expected to strengthen, many consumers may find their incomes pinched, especially those that have seen their union wages cut back, as well as those in many of the new service industry jobs that pay minimum wage. Therefore, the demand for economical foods will likely be stronger and should keep demand strong for poultry and eggs.

Foreign demand is expected to continue weak in 1984. Declines in foreign currency earnings in many countries, the need to limit imports to save foreign currency to meet debts, and the strength of the dollar relative to other currencies will continue to hinder increased exports of poultry and eggs. With the U.S. general economy rising, the world economy should begin to increase and exports may show some improvement possibly late in 1984.

Broiler producers have begun increasing the hatch of replacement pullets for the hatchery supply flock, suggesting they expect to produce more broilers in 1984. The cumulative hatchery supply flock (pullets placed 7 to 14 months earlier) will be below a year ago through the first quarter of 1984, and may be down through the first half of the year. Producers have been holding their old hens a little longer to maintain egg production when needed. This practice helps hold down costs when returns are low.

With continued high feed costs and plentiful supplies of red meats, broiler producers are expected to hold production near year-earlier levels in the first half of 1984. As red meat supplies decline in the second half of 1984, broiler producers are expected to continue production near the first half, which would be an increase of 4 to 6



percent over the 1983 second-half production. The 12-city composite price for broilers is expected to strengthen in 1984, averaging 50 to 53 cents per pound. In first quarter 1983, prices reported were the 9-city weighted average price of 43 cents per pound. The 12-city wholesale price was started in the second quarter and during the overlap period was 2 to 3 cents per pound higher. In second-quarter 1983, the 12-city price averaged 47 cents per pound; in the third quarter, it averaged 54 cents per pound; and in the fourth quarter, may also average about 54 cents per pound.

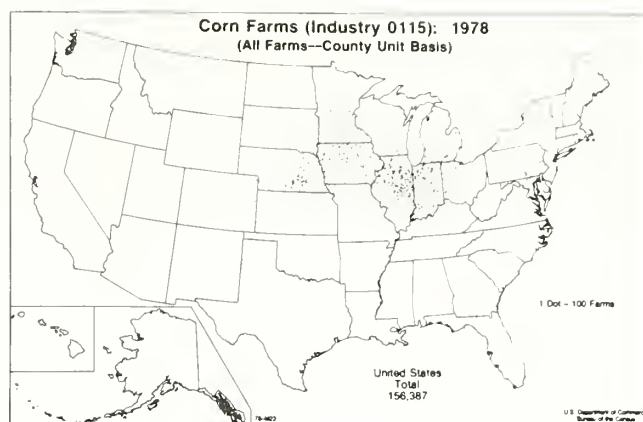
Seasonally weaker egg prices at the start of 1984, plus continued high feed prices, are expected to encourage egg producers to sell flocks when productivity begins to slip, especially flocks that have already been force molted. Many producers are expected to continue force molting their younger layers, because of research conducted in California, which has shown that one-cycle laying programs tend to be favored when feed prices are low or egg prices are high. During first-half 1984, egg production may be 1 to 3 percent below 1983's 2,832 million dozen. Declining feed costs in the third quarter, and stronger egg prices in the first half will likely promote production increases. During the second half of 1984, production may be up 1 to 2 percent from 1983, with a modest increase in replacement pullets.

Unfavorable returns to turkey producers in the second half of 1983 would normally encourage reduction in output in 1984. However, more turkeys are being further processed, and processing demand is offsetting some of the unfavorable returns on whole birds. As a result, poulters placed for 1984 slaughter have been up, and output in the first half may be down 5 to 7 percent from 1983's 1,043 million pounds. In the second half of 1984, returns are expected to be favorable because supplies of competing red meat will be lower. This may lead turkey producers to expand production 3 percent from the 1,530 million pounds produced during July-December 1983.

During the first half of 1984, the price of 8- to 16-pound young hen turkeys in New York may average 64 to 68 cents per pound, up from 56.1 cents in 1983. With supplies of red meats down and prices up in the second half of 1984, prices are expected to average 66 to 71 cents per pound, up from about 64 cents this year.

Broiler producers' net returns for non-branded whole birds were negative in the first half of 1983, but improved in the second half. Producers expanded output in the first half of 1983 and the larger supplies weakened prices. Lower prices combined with higher feed costs resulting from the PIK program drove down returns. In the second half of 1983, production was down and prices strengthened. Returns were favorable even though feed costs continued to increase as the drought cut grain production.

Egg producers began cutting production in response to poor returns in 1983. When feed prices increased in response to PIK, producers cut production by 3 percent from year-earlier levels. Although production was down 3 percent at the start of the second quarter, prices did not move above costs until the third quarter. This kept returns unfavorable in the first half of 1983, but higher prices improved returns in the second half. However, some operations hit with avian influenza are experienc-



ing serious financial difficulties. Producers outside the quarantine areas have benefited from stronger prices due to increased consumer demand and reduced supplies.

Turkey production was unprofitable in 1983. A sharp increase in production during the first half lowered prices, and increased feed cost during the year kept returns unfavorable. feed costs increased during 1983. Production was down 1 percent in the third quarter, but plentiful supplies of other meats have limited price rises.

Cash Grain Farms

Corn

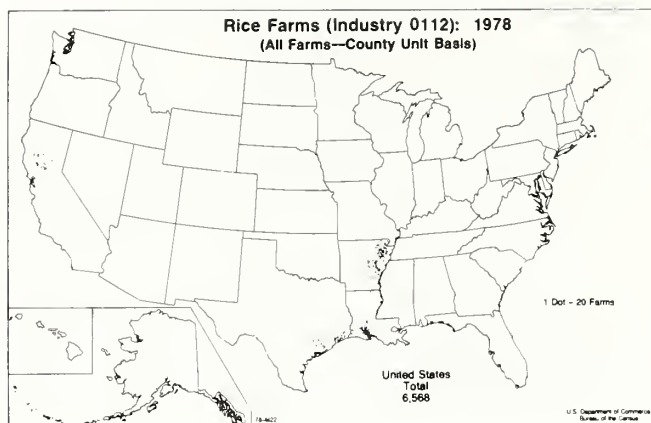
This year's corn crop, estimated at slightly over 4.1 billion bushels, is less than half of the 1982 crop and the smallest since 1965. Record beginning stocks of a little over 3.1 billion and a small amount of imports bring the total supply of corn to nearly 7.3 billion bushels (184 million metric tons), down 32 percent from last year. Corn will account for about 76 percent of the total feed grain supply for 1983/84, compared with 79 to 80 percent in recent years.

Corn use this year is expected to total about 6.8 billion bushels—down around 10 percent from 1982/83's 7.5 billion. Food, seed, and industrial use is expected to be up about 5 percent, exports may be virtually unchanged, and feed and residual use will be down. Total use will draw down October carryover stocks to near 500 million bushels, or 7.6 percent of use. This would put stocks at their tightest since 1976, when they constituted 6.9 percent of use.

The tight stocks are expected to raise corn prices through spring. This season average price is expected to be in the range of \$3.24 to \$3.55 a bushel, sharply above the \$2.70 average of 1982/83. Rising corn prices may also pull up prices for sorghum, barley, and oats—particularly because of their current low price relative to corn.

Rice

U.S. rice producers faced uncertainty and disappointment in 1983. Policy decisions, weather, and poor export performance were all significant factors.



Coming into 1983, rice producers had the opportunity to participate in a rice program calling for a 15-percent acreage reduction and a 5-percent paid land diversion. The program drew high participation.

But a deteriorating price outlook and weak demand that promised whopping carryovers of rice, as well as other grains, brought the January announcement of the PIK program.

PIK increased the attractiveness of the rice program, so that 96 percent of the U.S. rice base acreage was enrolled in the 1983 program. Over 1.8 million acres were withdrawn from production, resulting in the 1983 rice crop being harvested from 2.2 million acres, 1 million less than the previous year.

Despite this record response, production was forecast at more than 110 million cwt early in the year, and yields were expected to set a record. But a mild winter before planting aggravated pest and disease problems and a wet spring delayed planting. In Texas, hurricane Alicia brought harvest problems, which lowered yields. As of early October, yields were averaging 46 cwt per acre nationally, compared with over 47 and 48 cwt in 1982 and 1981, respectively. Thus, U.S. rice producers will harvest 103 million cwt of rice—the smallest rice crop since 1977. Supplies, however, will remain adequate, largely because of an unprecedented carryin of over 71 million cwt—an amount equivalent to nearly three-quarters of this year's crop.

The record carryin reflects the disappointing export performance of 1982/83. Exports barely cleared 69 million cwt, compared with 82 million the previous year and 91 million in 1981. This disappointment may be repeated through 1983/84. As a result, the record carryover and the dim prospects for demand expansion will mute any price increase a very shrunken rice harvest could have brought.

At the same time, foreign competitors, notably Thailand, have adequate supplies, and fierce competition for exports is certain to persist. Because the imposed loan rate floor will limit U.S. price movements, rice exports are not expected to improve significantly.

Although the aggregate picture for U.S. rice is not very promising, there are some bright spots in the market. On the cost side, variable expenses for producing an acre

of rice will likely drop slightly in 1983, while cash receipts may increase by a fair amount. PIK rice, available since August 15, 1983, will also provide some badly needed cash to farmers facing cash flow problems. Producers of long grain rice can also expect relatively premium prices in an otherwise depressed market. The reason is the tight supplies of long grain rice expected to occur this year. Although 1983/84 carryover is expected to decline substantially, to about 40 million cwt, the carryover will largely be composed of medium grain rice. Long grain ending stocks may well fall below 10 million cwt, and that means high prices for new crops of high-quality long grain rice. In Texas, for example, prices were well above the forecast range in early September: the range for 1983/84 is currently forecast at \$8.50 to \$9.50 a cwt, and Texas long grain was selling for more than \$11 per cwt.

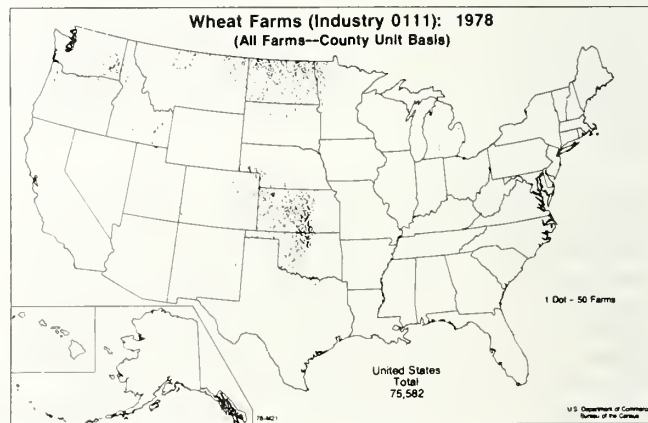
However, there is no real reason to believe this will continue throughout the year—it is possible that new-crop rice will earn the premium price until producers decide how to market their mostly medium grain PIK rice. Prices are then expected to drop, but will hopefully remain within the forecast range throughout the season.

With no bright spots to look for in the export market, producers will likely look to the provisions of a 1984 rice program as the most significant factor to affect prices for the remainder of the 1983/84 crop year and on into the 1984/85 season.

Wheat

While the hot and dry summer of 1983 devastated feed grain and soybean production, the U.S. wheat crop of 2.41 billion bushels was binned with minimal difficulties. Partially offsetting a sharp cutback in harvested acreage, yield per acre set records in many states producing Hard Red Winter and White wheat. Total winter wheat output, at 1.98 billion bushels, was only 131 million below 1982's record. However, summer conditions did reduce yields of spring wheat (Hard Red and Durum). That harvest was off significantly from 1982's record high, mostly because of participation in acreage reduction programs.

This year's smaller wheat crop does little to reduce the 1982/84 supply from a near-record level, because carryin stocks of old-crop wheat were the largest ever. But because total domestic and export use may exceed the



1983 crop, stocks next June 1 could decline for the first time in 5 years.

The domestic sector will account for the increase in wheat disappearance during 1983/84. Reduced feed grain supplies at higher prices, compared with large supplies of low-priced wheat, will expand wheat feeding to livestock and poultry. This was confirmed by the October grain stocks report, which indicated that wheat fed during June-September totaled around 270 million bushels, the largest ever. For the June-May wheat year, this use may total 400 million bushels, the largest since World War II.

U.S. wheat exports during 1983/84 are expected to fall for the second year following record shipments in 1981/82. The decline is the combined result of a leveling off of world wheat trade, a record 1983 global wheat harvest, aggressive competition from other exporting nations, and the continued strength of the U.S. dollar while some importing countries are strapped financially. Export loadings are likely to pick up from their early season pace, with 1.4 billion bushels of U.S. wheat eventually reaching foreign destinations.

Wheat prices at the farm have been slightly above a year ago, supported by this year's general price surge for feed grains and oilseeds, and by a higher loan rate. Because farm prices are still below the loan level, brisk placements of wheat in the CCC loan program also tend to be supportive. The large supply and weaker export demand suggest the 1983/84 farm price may range from \$3.45 to \$3.60 a bushel, compared with last season's \$3.53 average.

Wheat producers are facing almost identical decisions for the 1984 crop as they did last year. Participation in an acreage reduction program that includes a PIK feature remains an option. The exception is that some program benefits have increased and some have decreased. Producers again will review their expected benefits before deciding whether to participate. The announced target price of \$4.45 a bushel provides the strongest incentive for entering the 1984 program.

Soybeans

This year's U.S. soybean crop tallied a record year-over-year decline because of drought and the 1983 acreage reduction program for wheat and corn. The weather-

stricken crop is estimated at 1.52 billion bushels. Some cushion is offered, however, by a record 387 million bushels carried over on September 1. Even so, this will only put total supplies for the 1983/84 marketing year at about 1.90 billion bushels.

As the impact of bad weather became apparent last summer, prices soared, with those in central Illinois climbing from \$5.30 a bushel in mid-June to above \$9 by late August before receding in the fall under harvest pressure and weak export demand. The 1983/84 average farm price is likely to be in the \$7.75 to \$9 range, compared with last season's average of \$5.65 a bushel.

Domestic crush could fall below 1 billion bushels for the first time since 1977/78. But the 1983/84 crush will represent over 50 percent of total supplies, well above the more typical 42 to 45 percent. Although crushing margins were attractive during the summer and could remain so through harvest, season-average margins may not be as high.

Higher priced soybean meal and corn will lower profit margins for livestock and could probably stall the recovery in pork production that began last spring. Demand for soybean meal should remain strong through the first two quarters of 1983/84, and then wane as hog and cattle producers cut back production.

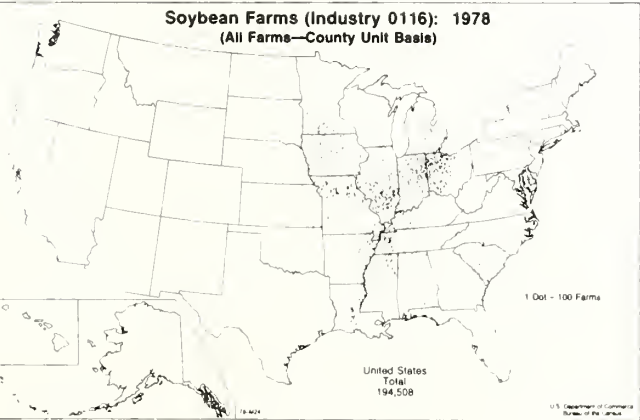
Soybean oil prices may be relatively high because demand for oil responds less to price changes than demand for meal. Reduced supplies of soybean oil are coinciding with economic recovery, so demand for oil will increase. This may mean an increase in palm oil imports, particularly if palm oil prices remain at a discount to soybean oil.

Exports of soybeans and soybean products will fall relatively more than domestic use. The overall decline in world soybean products is due almost entirely to reduced U.S. output. High U.S. prices, the strong dollar, and larger supplies in Brazil and Argentina will contribute to the decline in export sales. U.S. soybean exports could drop over 20 percent from 1982/83, to 721 million bushels. Meal exports could be off about a sixth. Despite the reduced volume, higher prices will likely result in higher total export earnings.

Sorghum

The total supply of sorghum for the 1983/84 feeding year is estimated at 881 million bushels, down 23 percent from last year's 1.1 billion. This year's harvest is estimated at 482 million bushels—43 percent less than the 1982 crop. Carryin stocks of 399 million bushels were a third larger than the year-earlier total of 297 million.

About 220 million bushels of sorghum were still in the farmer-owned reserve at the beginning of October. About a third of this represents grain that was pledged for PIK payments; this is coming out of the farmer-owner reserve and will continued through next March. Sorghum prices are expected to average from \$2.85 to \$3.10 a bushel in 1983/84, up from the 1982/83 average of \$2.55.



Cotton

The small 1983 cotton crop helped reduce extremely large supplies which had exceeded 18.6 million bales by 1982/83. With 1983/84 beginning stock at nearly 8 million bales, and production estimated at only 7.6 million, cotton supplies total 15.6 million bales—a decline of 3 million from a year earlier. The price-depressing effects of the large cotton stocks should be further eased by an anticipated modest increase in 1983/84 disappearance to about 11.9 million bales, compared with 10.7 million last season. Slowly improving worldwide economic conditions should cause domestic mill consumption to total 5.9 million bales, while U.S. cotton exports may grow 700,000 bales, to 5.9 million. Therefore, if current estimates of 1983/84 cotton supply and utilization are realized, beginning stocks for the 1984/85 season could total around 3.8 million bales. This is the lowest level in 3 years, but still considered adequate by most industry observers.

Prospects for cotton producers during 1984/85 will depend heavily on the speed and level of economic recovery, and producers response to the 1984 upland cotton program. To be eligible for program benefits, producers must limit 1984 acreage to no more than 75 percent of the farm's upland cotton base and devote to conservation use an acreage equal to one-third of the 1984 planted acreage.

There will be no PIK program, paid diversion, or advanced deficiency payments during the 1984 season. Income protection is provided by a 1984 target price of 81 cents a pound, 5 cents above last year, and a loan rate at the statutory minimum of 55 cents a pound. Eligible cotton producers will receive a deficiency payment if the weighted average farm price for the calendar year falls below the target price. The payment rate cannot exceed the difference between the target price and the loan rate, with a payment limitation of \$50,000 per producer.

Fairly strong participation is expected in the 1984 program, which should hold planted cotton acreage to around 11-12 million. With yields and abandonment at more normal levels, 1984/85 cotton production may range between 10.5 and 13.0 million bales. Despite prospects for improving economic conditions, a continued large cotton textile trade deficit and competition from manmade fibers may reduce mill use slightly next season. In addition, indications of increasing foreign cotton production could drop U.S. exports below year-earlier levels. On balance, reduced disappearance and higher production could cause cotton stocks to increase in 1984/85.

Tobacco

U.S. tobacco output in 1983 may be down 30 percent from last year. Based on conditions around December 1, production is placed at 1.38 billion pounds (628,000 metric tons), reflecting both smaller acreage and lower yields. The dry weather during July and August reduced the crop's quality as well.

Supply for 1983/84, however, may drop only about 4 percent. This is because estimated ending stocks going into the new marketing year are 3.8 billion pounds (1.7 million metric tons), about 8 percent higher than a year earlier. (The crop year begins on July 1 for flue-cured and cigar-wrapper types and on October 1 for all others.) The 1983/84 supply is forecast at 5.3 billion pounds (2.4 million metric tons), with most types showing a decline.

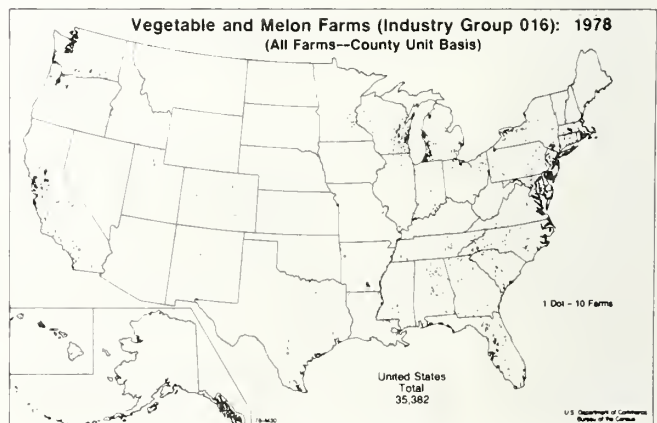
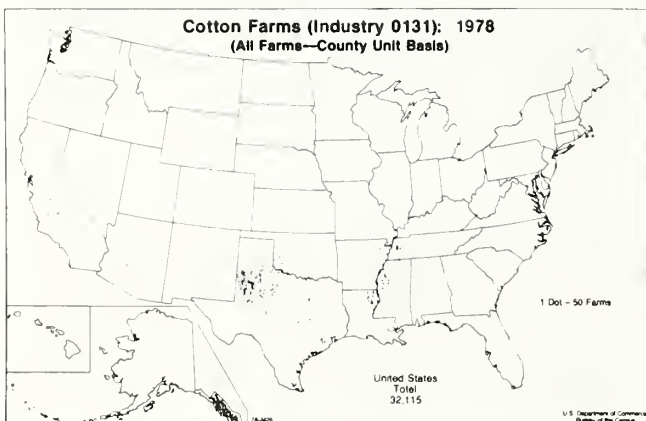
Prospects for use of world tobacco indicate relatively small increases in sales of cigarettes and unmanufactured tobacco, and use of U.S. tobacco may fall from last year's 1.63 billion pounds (741,000 metric tons). Exports are dampened by the smaller crop and reduced quality, and further discouraged by the strong dollar, larger world supplies, and already high prices for U.S. tobacco. For the year ending June 30, 1984, exports may be below last year's 526 million pounds (635 million, farm sales weight).

Vegetables

Growers of vegetable crops will obtain higher cash receipts from marketings in 1983. Receipts for 1983 are forecast at \$8.75 billion, compared with \$8.5 billion in 1982. In 1984, increased consumer demand and reduced supplies of some items augur further gains in prices and cash returns to farmers. However, higher inflation and interest rates which could reduce the expected gain in net income.

Fresh Vegetables

The characteristics of depressed fresh vegetable grower prices from of second-half 1982 carried over into early 1983. Then, the wet, cool spring reduced supplies in all major growing areas and sharply boosted prices. During second-half 1983, despite apparently larger supplies, grower prices remained strong. The concurrent rises in supplies and prices and consumer income strongly implied an increase in the demand for fresh vegetables.



Weather-reduced home garden production also may have figured in price rises for commercially produced vegetables. For all of 1983, the grower price index for fresh vegetables will average about 128 (1977 = 100), compared with 120 in 1982.

For 1984, the supply and demand factors point to likely gains in supplies and consumption of fresh vegetables, and a rise of 5 to 10 percent in grower prices. Consumer income and consumption expenditures are expected to rise more than in 1983, which could continue the strong demand that has characterized second-half 1983 and could buoy 1984 prices.

Increased planted acreage is likely for the 1984 spring and summer crops, but the smaller supplies from the 1983 fall crop should maintain strength in grower prices into the summer. The higher prices from the 1983 crop and the need for frozen processors to rebuild stocks should spur a gain in fall-crop acreage. With a larger harvest, grower prices will likely drop below year-earlier levels next summer, with the depth of the decline dependent on the size of the crop, grower contract prices, and the stocks of frozen potato products.

Other Crops

Low prices from the 1982 crop forced a sharp reduction in 1983 sweetpotato planting to the smallest acreage on record, which combined with reduced yields to lower this year's crop to the second smallest ever. As a result, grower prices for the 1983 crop will likely average \$12 to \$15 per cwt, compared with \$7.90 for the 1982 harvest and the record of \$13.60 for the 1980 and 1981 crops. This year's higher prices will likely attract larger 1984 acreage, but after short crops in 1977 and 1980, relatively high prices for the subsequent year's crop.

Grower prices for the 1982 dry edible bean crop averaged \$13.80 per cwt, the lowest price since 1972. The low prices, primarily because of reduced exports, forced a huge plantings cutback—this year's acreage was the smallest since 1921—and dropped production by 38 percent. The smaller crop and high value of the U.S. dollar will limit exports in the year ahead. Nevertheless, with the tighter supplies, grower prices have moved up sharply and should remain buoyant through the 1983/84 marketing season. Grower prices for the 1983 crop will likely average between \$22 to \$28 per cwt.

Processed Vegetables

Cash receipts to growers of major processed vegetables declined this year after 1982's sharp rise. Lower contract prices and reduced tonnage contributed to the decrease.

Cash receipts should rebound in 1984. The combined 1983/84 supply of canned beans, corn, and peas is the smallest in recent times. Therefore, canners, located primarily in the Midwest, will likely increase their contract acreage and their prices to attract the needed acreage. Although 1983/84 frozen vegetable supplies are down only slightly from 1982/83, disappearance has been strong during 1983, and will likely cause a slight to moderate gain in freezers' 1984 contracting. Canned tomato supplies for 1983/84 appear to be in good balance with

expected needs, so 1984 contract tonnage will probably be similar to 1983. In addition, better price prospects for alternative crops in 1984 should help processing vegetable growers in achieving higher prices for their crops.

Potatoes

For potatoes, 1983 cash receipts will probably post a slight increase from 1982. In the last three quarters, strong prices due to good demand and smaller crops offset the low prices of the first quarter. The reduced fall crop and the potential for more open-market purchases of potatoes for processing should buoy prices and returns through at least mid-1984. Total 1983 production declined 6 percent, and growers will likely receive a season-average price of \$5.25 to \$5.75 per cwt, compared with \$4.45 and \$5.41 for the 1982 and 1981 crops, respectively.

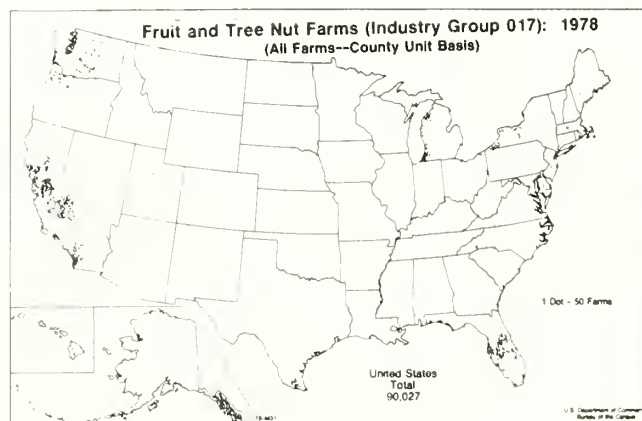
Fruit and Nuts

The fruit industry expects adequate supplies for most fruit during the 1983/84 season. The 1983 noncitrus fruit production was substantially smaller than in 1982, while this season's citrus crop is projected to be moderately larger than last season. With the continued economic recovery, demand should be stronger than a year ago. Rising demand should hold prices relatively firm. Prices for some canning fruits were negotiated at the same levels as a year ago, but others are higher. Overall, grower returns will increase moderately and the fruit industry will have another profitable year.

Noncitrus

The 1983 noncitrus crop, including major tree fruits, grapes and cranberries, is forecast at 12.2 million tons, 13 percent below last year, primarily reflecting a sharply reduced grape crop. This summer's hot, dry weather dropped production prospects for some fruit, such as apples, grapes, and peaches.

The final forecast of the 1983 U.S. apple crop is 8.29 billion pounds, 2 percent above last year. The Eastern States expect to harvest 3.13 billion pounds, off 2 percent from last year. Prospects in the Central region point to a crop of 1.19 billion pounds, down 19 percent from 1982. In the Western region, prospects are for a crop of 3.96 billion pounds, 15 percent above 1982. Apple prices



received by growers have generally have been above a year ago. However, prices for fresh apples are expected to remain firm this season in view of rising demand, the sharply reduced Navel orange crop in California, and improved export prospects. The smaller crops in the East and Central regions have kept processing apple prices firm, as well as moderately higher than last year. Processor demand for this year's apples could be strong as the carryover stocks of some canned apple products are moderately below last year.

The final forecast for the 1983 U.S. grape crop is 4.93 million tons, 25 percent less than last year. Prospects in California point to a crop of 4.37 million tons, 29 percent below last year, with significantly smaller crops expected for all three types—table, wine, and raisin grapes.

Despite a smaller crop, grape prices received by growers have shown a mixed pattern. The reduced growth in wine shipments and a sharply larger inventory have lowered grower prices for wine grapes well below a year ago. A smaller raisin variety crop has not strengthened the field prices for natural seedless raisins. F.o.b. prices for table grapes were generally weak early in the season, but have recently strengthened. The 1983 price may average above 1982.

The final forecast of the 1983 U.S. pear crop is 794,080 tons, 1 percent less than 1982. Because of the smaller crop, f.o.b. prices for fresh Bartletts were generally firm this season. However, with the slack demand from packers, West Coast growers and canners agreed on a field price for Bartletts at \$135 a ton, the same as a year ago. With a moderately larger crop, prices of winter pears are not expected to strengthen appreciably. Overall prices received by pear growers may average only slightly to moderately above last year's level.

Citrus

December 1 prospects indicated a 1983/84 citrus crop of 13.9 million tons (including, for California grapefruit, only desert valley fruit), about 4 percent more than last year. Larger crops are indicated for grapefruit, lemons, oranges, and tangerines, but smaller crops are expected for limes, tangelos, and Temples.

December 1 prospects point to an orange crop of 222.5 million boxes, up slightly from 1982/83, but 26 percent above 1981/82. The increase is entirely attributed to a sharply larger crop in Florida. The forecast for production of all oranges in Florida is 168 million boxes, a fifth above last season. At 46 million boxes, the California crop is 37 percent less than last season. All orange production in Texas is estimated at 5.3 million boxes, down 7 percent. Arizona growers expect to harvest 3.2 million boxes, 16 percent below last season. Fresh orange prices are expected to strengthen from their current low. Sharply smaller supplies of California navel oranges will push up prices significantly. With the continued economic recovery, demand for oranges will rise. The 1983/84 season-average price is likely to be substantially above last season's low.

The November 1 forecast for 1983/84 grapefruit production (including, for California, only desert valley fruit) points to a crop of 63.9 million boxes, 11 percent more than last season, but 6 percent below the 1981/82 crop. Larger crops are indicated for all producing areas except Arizona. Florida's grapefruit forecast of 46 million boxes is 17 percent more than last season's crop. Texas growers expect to harvest 11.5 million boxes, 3 percent more than last season. California "desert area" is projected at 4.2 million boxes, 2 percent above the preceding season. Arizona growers are likely to harvest 19 percent less. Because of a larger crop, prices have weakened from the early season's high and are now moderately below a year ago. The fresh market demand for grapefruit is likely to grow. Carryover stocks of most processed grapefruit products are down substantially, so processor demand is expected to be bright this season. In addition, demand for processed products is likely to rise with the improving economy. Thus, even with a larger crop, increased demand is not likely to depress prices sharply.

December 1 prospects for 1983/84 lemon production point to a crop of 26.4 million boxes, 6 percent above the 1982/83 utilized production. California's crop at 20.2 million boxes is up almost 2 percent from last season. In Arizona, a crop of 6.2 million boxes is expected, 23 percent more than 1982/83 utilized production. Early season prices averaged moderately above a year ago, but have declined with increasing volumes. Season-average prices will likely be below last year's.

Tree Nuts

Supplies of tree nuts will be adequate during the 1983/84 season, despite sharply reduced crops of almonds and walnuts. This season's pecan crop is expected to be well above 1982, while the filbert crop is likely to be significantly smaller.

Domestic demand for almonds looks bright in view of the improved economy. Export prospects will be influenced by the dollar's strength and the size of foreign crops. Spain, the world's second largest almond producer, expects a crop of 35,000 tons, down 36 percent from last year, while Italian production is up sharply. Opening prices for almonds were significantly higher than a year ago. In light of the improved economy and smaller world production, almond prices are likely to remain firm throughout the marketing season.

In contrast, the ample walnut supply may result in grower prices below last year. Shipments during the first 3 months of 1983/84 were moderately less than a year ago, entirely reflecting slack exports. However, the export market could improve because France expects to harvest a sharply reduced walnut crop. On the other hand, with the larger pecan crop, domestic demand for walnuts may be affected by the degree of substitution between walnuts and pecans. Pecan prices are expected to weaken because of the sharply larger crop. Despite a significantly reduced filbert crop, the huge world supplies will likely hold grower prices down.



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If you would like to be notified when the 1984 issue of **AGRICULTURAL FINANCE OUTLOOK & SITUATION** is available, its price, and how to order, cut off the mailing portion at the top of this page, leaving mailing label intact, and send to: EMS Information, Rm. 400 GHI, U.S. Department of Agriculture, Washington, D.C. 20250.